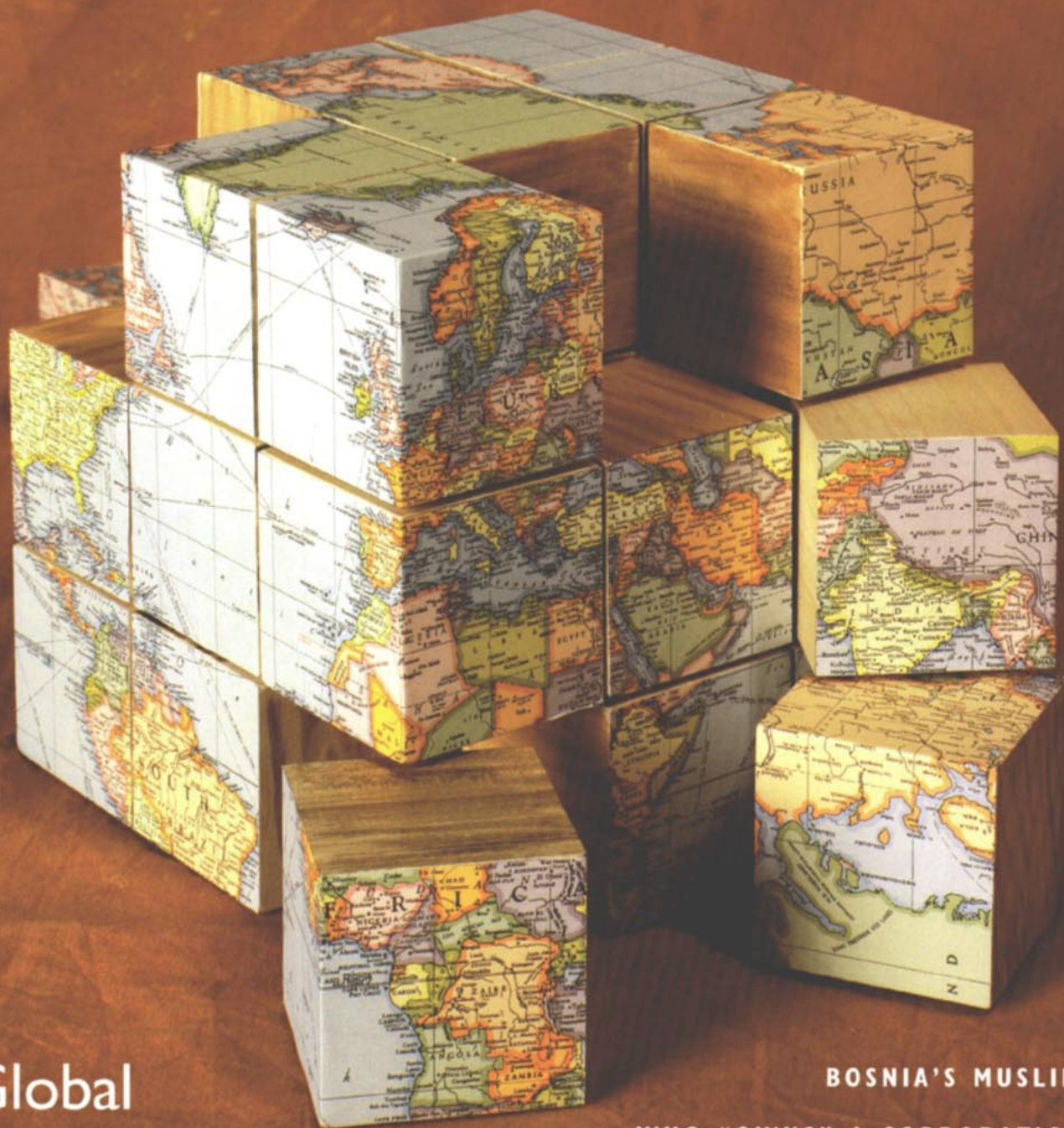


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COVER ILLUSTRATION
BY JERRY PAVEY

A GI Bill for Kids

■ Everyone whose knees jerk at the mention of school choice (which means almost everyone) should pause to consider Diane Ravitch's argument ("Somebody's Children," fall issue): "*Nobody's children* should be compelled to attend a bad public school."

I graduated from wonderful public schools. I have also walked the halls of bad ones. Not many children whose families have money are in the bad ones. We therefore risk, in this magnificent age of telecommunications, creating a permanent underclass. The best ticket from the back to the front of the line is, has always been, a strong family and a good education.

Government policy cannot make every poor family a strong family, but it *could* offer a scholarship that would permit every poor family to choose the best school for their children. Call it a GI bill for kids. How, in America in the 1990s, could this even be an issue? *Nobody's children* should be forced to attend a bad public school.

Lamar Alexander, formerly
U.S. Secretary of Education

Fresh Paint and Choice

■ Diane Ravitch smelled fresh paint in a publicly funded religious school in London and became a convert to private school choice. While I am moved by the feeling and faith Diane Ravitch expresses, when it comes to policy, evidence is a more prudent guide. Ravitch presents virtually no evidence and neglects some key facts.

First, private school choice really means that the schools get to choose the students. That's a hallmark of private schools, and they insist on preserving that right. Some private schools will admit some poor children with vouchers. But like the poor children now admitted to private schools, they will be the ones who achieve at

grade level, have no behavioral problems, and pass muster, along with their parents, during interviews. If Ravitch wants all public schools to have the same right to select their students, let's have that debate instead of pretending that the main barrier to any child's access to private school is money.

Second, once you control for family background, there is virtually no difference in student achievement between public and private schools. There are good and bad public and private schools, but both sectors are far from where we need to be. Moreover, some schools that appear "good" are just good at getting an advantaged student body, while some that look "bad" actually take their disadvantaged youngsters a long way from where they started. What kind of "worst" schools does Ravitch mean? Why isn't she worrying about worst students? And why does her voucher design only help schools that can pick the best low-income students?

Third, Ravitch says that to be eligible for publicly funded vouchers, private schools must agree to not teach racial or religious hatred, to obey civil rights laws, to accept state educational standards, and to be "monitored by state agencies responsible for assuring both equity and excellence." This of course recognizes that the same rules, tests, and accountability systems that the public applies to public schools should apply to private schools that accept public dollars. What it doesn't recognize is that such oversight would require a whole new and costly bureaucracy, breach the wall between church and state, and end the independence of private schools.

Helping all American children involves carrying on the fight that Ravitch was recently part of: for high academic standards, discipline, and making effort and achievement count

for students. We're closer to getting there than we've ever been, though it's tough going. I regret that Ravitch decided to switch rather than fight.

Albert Shanker, American
Federation of Teachers

Make Schools Work

■ Inner-city public schools in poor neighborhoods are struggling. To borrow Jonathan Kozol's apt phrase, savage inequalities persist in American education. What is to be done? Many things we need can wait; our children cannot.

Diane Ravitch's proposal, unfortunately, would siphon money away from city public schools to private schools or to suburban public schools. How else would her means-tested scholarships get paid for? Higher taxes? That's political suicide, as everyone knows.

The solution is not to abandon urban public schools, but to make them work. If parents, public school educators, and the community work together as partners, it can be done. It is being done—today—in ethnically diverse public schools across the country: Frederick Douglass Academy in Harlem, Booker T. Washington High School in Memphis, Kosciuszko Middle School in Milwaukee, Horace Mann Middle School in San Francisco, Longfellow Elementary School in Riverside, east of Los Angeles, to name a few. These innovative public schools are educating children of all colors and educating them well. But we need many more.

Now is not the time to give up on public education. We must revitalize inner-city public schools. The mean streets surrounding these schools make the job harder, but not impossible.

Keith Geiger, National
Education Association

Continued on page 48

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After the Electoral Earthquake

BY THOMAS E. MANN

The political shock waves from the 1994 midterm election continue to reverberate in Washington. For once, the orgy of punditry seems commensurate with the event.

The extraordinary dimensions of the Republican party sweep are by now familiar. The GOP captured control of both houses of Congress only two years into Bill Clinton's presidency, finally ending 40 years of minority status in the House. Republicans surged to a dominant position in the states by controlling 30 governorships, including the top post in eight of the nine largest states, as well as by registering large gains in state legislative contests. And they completed the partisan realignment of the South, which is well on its way to becoming as safe at all levels of elective office for the Republicans as it long was for the Democrats.

What will this seismic event mean for politics and policy in the United States?

Clearly, the immediate political advantage lies with the Republicans, in particular with Speaker Newt Gingrich and his lieutenants in the House. The startling end to the seemingly permanent Democratic rule in the House, combined with the boldness of the Republican Contract with America, ensures a dramatic change in the agenda of political debate and legislative deliberation. An aggressively conservative Republican majority in Congress, empowered by an electorate whose decisive swing voters vented their economic and cultural frustrations by lashing out against the party of government, will try to seize the initiative from a beleaguered president. Indeed, the Republicans are in an excellent position to deliver sustenance to their key supporters by moving quickly to reform internal congressional arrangements and to send a balanced budget constitutional amendment to the

states, all before they advance ambitious proposals to revamp tax, spending, and regulatory policies and to return power to the states.

Of course, our separated system of government places many obstacles in the path of any party claiming an electoral mandate to change policy course. That system is often assailed for its proclivity for gridlock, and gridlock may well be the order of the day for the 104th Congress. Divided government at a time of ideological polarization between parties, small Republican majorities in both houses, differences between House and Senate Republicans, and the prospect of Senate filibusters and presidential vetoes do not augur well for political harmony and legislative productivity. The November sweep and Bill Clinton's weakened political standing also ensure an early and aggressively confrontational GOP presidential campaign, which will not facilitate compromise between the branches.

But before assuming the worst for governance in the months ahead, it's worth reminding ourselves of the opportunities voters provided politicians in the midterm elections and how those opportunities might be seized.

The dramatic reversal of fortunes for Republicans in Congress offers a serious chance for constructive reform of congressional operations and for a halt to the Congress bashing that has so eroded the legitimacy of the first branch of government. At last, House Republicans have a stake in their institution. Now it's time for them to stop their guerrilla war against Congress and to assume responsibility for improving and leading it. Both chambers, but especially the Senate, need to constrain the intense individualism that has lately plagued Congress and



to improve its capacity for genuine deliberation. Another early test will come with the promised vote on a constitutional amendment to limit the terms of members of Congress. The voters have just demonstrated emphatically why term limits are unnecessary. Now a GOP-led Congress must buck the pressure of the term-limits movement and reject this radical proposal that would weaken Congress and democratic accountability.

Republicans must also show how the slogans of lower taxes and less spending can responsibly guide federal budget policy and address the underlying sources of economic insecurity among citizens. Policy choices and stakes should be clearer in this new political environment. At the very least, voters might be forced to confront tradeoffs and inconsistencies that have long eluded them.

For their part, Democrats must confront the reality of the collapse of the New Deal coal-

ition and develop a new public philosophy for attracting broad public support. President Clinton faces an especially daunting challenge in adapting his policy ambitions to the new political conditions and conducting his presidency in a manner that garners him the respect necessary to carry on.

Elections are blunt instruments of democratic control. Relatively few citizens meet the highest standards of informed participation in the electoral process. Yet changing sentiments among a small fraction of the electorate can—and did—transform the political landscape. Now it is up to our elected officials to make something constructive of it. ■

Thomas E. Mann is director of the Brookings Governmental Studies program and W. Averill Harriman Senior Fellow in American Governance.

Reluctant Strategic Realignment

THE NEED FOR A NEW VIEW
OF NATIONAL SECURITY

JOHN D. STEINBRUNER

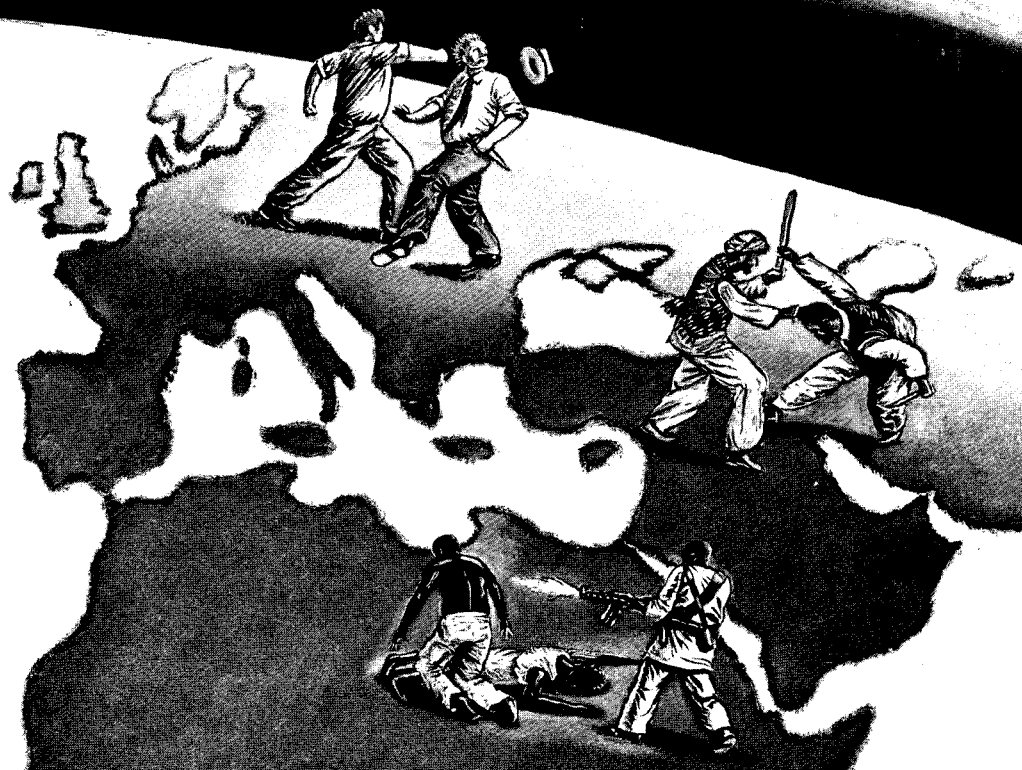


The United States is having difficulty emerging from the conceptual and institutional grip of the Cold War. Though we have declared the ideological confrontation ended and have tempered our political rhetoric accordingly, we have not fundamentally altered our military posture. Our defense policy no longer designates a specific enemy but nonetheless prepares for large-scale war anywhere in the world on short notice, as if we were still engaged in a strategic confrontation. We have yet to recognize that today's most urgent security problems cannot be handled by traditional methods of confrontation.

The difficulty is understandable. We have emerged, apparently triumphant, from what has been for 40 years a consuming undertaking. We have spent more than \$11 trillion in today's currency creating and maintaining a military establishment that is unquestionably the world's most capable—in fact the only one able to undertake the most advanced military

John D. Steinbruner is director of the Brookings Foreign Policy Studies program. This article is adapted from "Can the United States Lead the World?" in International Security: Questions for Our Time, ed. Ken Booth (Cambridge University Press Syndicate, forthcoming), and from "The Strategic Implications of Emerging International Security Conditions," a paper prepared for a Hebrew University of Jerusalem conference on American-Israeli Relations and the New World Order.

ILLUSTRATION BY ROBERT SOULE



missions. Proud of that accomplishment and committed to preserving it, we are inclined to view the world in terms that justify our efforts.

The sheer magnitude of our accomplishment, however, undermines the rationale for sustaining it. No military force in existence can justify the degree of readiness we are attempting to preserve. Our official annual defense budget is five times larger than that of any other single country and is comparably larger than the combined budgets of all the major countries with which we are not formally allied and might conceivably come into confrontation. The combined official defense budgets of Russia, China, Iran, Iraq, Syria, Libya, India, and North Korea, for example, are about 20 percent of the U.S. budget. Even accepting that Russia and China in particular spend substantially more on defense than is accounted for in their official defense budgets, U.S. defense spending is more than double the combined total of the major non-allied countries. No other military establishment is within a decade of matching our global reach, even if one should, improbably, choose to start matching our annual investment. Because we are also allied with the great industrial economies, as a practical matter there is no plausible instance of classic aggression that we could not handle if we chose to do so.

The real dangers we face are of different character. Uncontrolled weapons proliferation threatens eventually to produce such an array of small but technically sophisticated threats as to be unmanageable. Endemic austerity and disintegrating political systems worldwide are virtually certain to spawn civil violence that we are unprepared to handle, as recently revealed in Bosnia, Somalia, and Rwanda. Radical political disintegration and weapons proliferation might be controlled by appropriate global collaboration, but if they were to run their full course, no feasible amount of traditional military preparation would be able to contain the consequences.

The task for U.S. security policymakers is deceptively simple to state. We must extend to the major military establishments that still lie outside our institutionalized alliances—most notably Russia and China, ultimately India as well—the basic principles of collaboration we used so successfully with Germany and Japan in the wake of World War II. With both Germany and Japan, our dominant objective was reassurance, and our principal method, cooperative engagement. We so internationalized their military operations and our own that their considerable military capabilities were no longer considered a threat. That was in fact our most important Cold War accomplishment. Our problem now is to extend that accomplishment without a strategic confrontation to justify it in traditional military terms.

That formulation alone is enough to reveal the difficulty. At the moment, summary judgments in the United States run heavily against the feasibility of such a policy, and visceral emotions against its desirability. We are in a mood to insist that our former foes adopt our standards of democracy and economic organization before being accorded the

trust of security collaboration. We have largely forgotten that after World War II we used security collaboration to effect that transformation rather than to reward it.

Ultimately, this prevailing attitude is unlikely to withstand the relentless pressure of events. To a degree that leaves little room for contrary habits or feelings, the emerging problems of international security require systematic prevention rather than crisis reaction and cannot be managed except by collaboration among the major military establishments. We face the adventure of having to change our own hearts and minds.

The New Strategic Context

The basic conditions of international security are being transformed by two fundamental developments whose consequences are powerful enough to override even the most entrenched political sentiment.

The first is the revolution in information technology. Over the past two decades the costs of storing, processing, and transmitting information long-range have dropped precipitously, by factors of a thousand to a million or more. Such an efficiency gain, probably the largest of any commodity in history, will have immense consequences. Freely flowing information is spontaneously integrating the world economy. It is also diffusing technology and changing the basic circumstances of making military investments.

The world also faces a population surge beyond any it has yet seen. World population is expected to double by 2050, implying the addition of roughly a billion people a decade over the next 50 years. Ninety-five percent of the increase will be in the poorest communities. Both the scale and composition of this population surge will have consequences powerful enough not just to affect, but perhaps even to dominate, conceptions of international security.

Because both the revolution in information technology and the population surge are historically unprecedented, their full implications remain to be seen. Still, some central features of the new strategic environment are already apparent.

Unless the globalizing economy can extend its reach to people in the lower economic strata, where population is growing most rapidly, the coherence of many if not all political systems is likely to come into question, and some would almost certainly be torn apart. To accomplish this extension, world economic production will have to increase at least fivefold, energy and agricultural production to triple. The massive investments thus called for will bring about huge structural and technical shifts in virtually all national economies and will require increasing sensitivity to the balances of material flows and to their environmental effects, especially in the more burdened regions and probably on a global scale as well.

Individually, the national governments that must face these uncertainties can expect their control over events to diminish. Information technology is encouraging, probably compelling, the decentral-

ization of many decision processes, thereby eroding the degree of power governments can expect to exercise within their societies. It is simultaneously driving the global extension of basic economic activities, thereby dispersing effective control into the world economy as a whole. In responding to new problems under new circumstances, national governments will almost certainly have to create far more effective and more consequential patterns of collaboration.

The Russian Case

For the same reason that the Soviet Union was the focus of confrontation during the Cold War, Russia will now have to be a primary focus of collaboration: Russia is where the problem is. Russia has inherited the core of the Soviet military establishment, including provisionally (permanently, it is to be hoped) all its nuclear weapons. It must now relocate and redesign its military deployments to defend its new territory while undergoing a massive transformation of its economy, its political system, and indeed of its entire society.

Although Russia’s ultimate future is beyond anyone’s ability to predict or determine, some critical near-term problems are quite apparent. In particular, Russia’s military establishment cannot be expected to handle the security burdens imposed on it without receiving much more substantial reassurance from the international community than has yet been contemplated.

At the moment Russia aspires to preserve a military establishment of more than 1.5 million people—the minimum deemed necessary to preserve core nuclear deterrence, to protect against a conventional ground attack in the Far East and tactical air assaults from the West, and also to cope with flaring episodes of civil violence along the southern border. Though these threats may appear unlikely to the rest of the world, they are at least as plausible, in the traditional logic of military planning, as the ones we are using to set standards for our own military deployments. So are the force structure conclusions derived from them.

These plans, however, are wildly unrealistic in economic terms. As shown in table 1 (and documented in table 2), Russia would have to spend nearly \$100 billion a year to sustain a 1.5 million person establishment even if it could produce comparable equipment at half the cost the United States experiences. As prices in the Russian economy adjust to world standards, the full financial requirements of the planned military establishment would exceed \$200 billion. The officially enacted defense budget of 40 trillion rubles, nominally comparable to \$20 billion at the time it was approved, is not considered to be a full accounting of all that the Russian economy actually spends on defense. But whatever the true amount is, it almost certainly falls well below the minimum sustaining requirement. Defense spending increases to meet the full requirement are highly unlikely. Such an allocation would not only threaten the process of economic regeneration but also re-



Table 1. Annual Costs for Alternative Russian Force Levels

BUDGET AUTHORITY IN BILLIONS OF 1994 DOLLARS

	ALTERNATIVE FORCE LEVELS (IN MILLIONS OF MILITARY PERSONNEL)			
	2.0 ^a	1.5 ^b	1.0 ^b	0.7 ^b
ANNUAL COST IN THE RUSSIAN ECONOMY ^c				
Strategic nuclear forces	16.9	12.5	8.3	5.9
Army divisions	81.3	60.1	40.1	28.0
Tactical air forces	13.8	10.2	6.8	4.8
Airlift	2.7	2.0	1.3	0.9
Naval forces	10.4	7.7	5.1	3.6
National intelligence and communications	2.8	2.1	1.4	1.0
Total	127.9	94.6	63.0	44.2
ANNUAL COST IN THE U.S. ECONOMY ^d				
Strategic nuclear forces	37.0	27.4	18.3	13.0
Army divisions	177.9	131.6	87.9	61.3
Tactical air forces	33.4	24.7	16.4	11.5
Airlift	2.7	2.0	1.3	1.0
Naval forces	22.8	16.9	11.0	7.9
National intelligence and communications	6.4	4.7	3.1	2.2
Total	280.2	207.3	138.0	96.9

Source: Calculations by William W. Kaufmann.
a. See table 2 for the derivation of these numbers.
b. These totals assume that allocations of personnel are constant percentages of total personnel, and that individual force costs decline proportionately to the decline in personnel.
c. The cost of Russian weapons and equipment is assumed to be approximately half of that of comparable U.S. weapons and equipment. It is also assumed that Russian annual investment, operating, and support costs, as a percent of weapons and equipment costs, are comparable to those of the United States.
d. The cost of Russian weapons and equipment is assumed to be approximately equal to that of comparable U.S. weapons and equipment. It is also assumed that Russian annual investment, operating, and support costs, as a percent of weapons and equipment costs, are comparable to those of the United States.

quire a degree of coercive political recentralization that probably has become infeasible but at any rate would be self-defeating. The inevitable world reaction would require yet more unrealistic levels of military preparedness.

Substantial underfinancing of Russia’s military establishment will assuredly cause its internal deterioration and therefore risk a series of grave consequences—the loss of control over large weapons stockpiles and a destructive interaction with political reform foremost among them. The disintegration of Yugoslavia has provided a chilling hint of what could happen. But to preserve its military establishment, Russia will probably have to cut it to less than half of current plans. That requires systematic arrangements from outside to provide reassurance. Russians will not expose themselves indefinitely to what they believe are unmanageable external threats.

The Obvious Response

If vital interest were the obvious and decisive thing it is sometimes proclaimed to be, the urgency of the Russian problem would rapidly generate a systematic reaction. Responsible Russian leaders, aware of their problem, would ask the international commu-

Table 2. Computing Annual Costs of Russian Forces

1993 RUSSIAN FORCES IN 1994 DOLLARS

TYPE OF FORCE	COST PER UNIT ^a (MILLIONS OF DOLLARS)	NUMBER OF UNITS ^b	REPLACEMENT COST ^c (BILLIONS OF DOLLARS)	ANNUAL COST (BILLIONS OF DOLLARS)		
				INVESTMENT ALLOCATION ^d	OPERATING AND SUPPORT ^e	TOTAL
STRATEGIC NUCLEAR FORCES						
SLBM	54.2	788	42.7	2.8	2.1	4.9
ICBM	20.8	1,204	25.0	2.5	0.6	3.1
Bombers	100.0	170	17.0	1.2	1.7	2.9
BMD	20.0	100	2.0	0.2	0.2	0.4
Fighters	10.0	2,200	22.0	2.2	1.1	3.3
SAM	1.0	7,000	7.0	0.7	0.7	1.4
EW/C ³	250.0	25	6.3	0.6	0.3	0.9
Subtotal			122.0	10.2	6.7	16.9
ARMY DIVISIONS						
Tank	2,333.0	18	42.0	4.2	13.4	17.6
MRD	2,300.0	16	140.3	14.0	44.9	58.9
Airborne	1,900.0	6	11.4	1.1	3.7	4.8
Subtotal			193.7	19.3	62.0	81.3
TACTICAL AIR FORCES						
Bombers	100.0	300	30.0	3.0	1.5	4.5
Recce/ECM	30.0	520	15.6	1.6	0.8	2.4
Fighter-attack	20.0	1,800	36.0	3.6	1.8	5.4
Fighter	10.0	1,200	4.2	0.4	0.2	0.6
Service and support	5.0	1,200	6.0	0.6	0.3	0.9
Subtotal			91.8	9.2	4.6	13.8
AIRLIFT						
Aircraft	50.0	350	17.5	1.8	0.9	2.7
NAVAL FORCES						
SSGN	280.0	28	7.8	0.5	0.4	0.9
SSN	200.0	54	10.8	0.7	0.5	1.2
SSG	100.0	5	0.5	—	—	—
SS	50.0	80	4.0	0.3	0.2	0.5
CVV	1,600.0	2	3.2	0.2	0.2	0.4
CGN/CG	400.0	29	11.6	0.8	0.6	1.4
DDG	200.0	24	4.8	0.3	0.2	0.5
FF	100.0	114	11.4	0.8	0.6	1.4
Mine warfare	20.0	211	4.2	0.3	0.2	0.5
LPD	150.0	3	0.5	—	—	—
LST	50.0	40	2.0	0.1	0.1	0.2
LS (medium)	50.0	32	1.6	0.1	0.1	0.2
Combat aircraft	10.0	913	9.1	0.9	0.5	1.4
Armed helicopters	5.0	239	1.2	0.1	0.1	0.2
Coastal defense units	1,900.0	2	3.8	0.4	1.2	1.6
Subtotal			76.5	5.5	4.9	10.4
NATIONAL INTELLIGENCE AND COMMUNICATIONS						
Satellite equivalents	250.0	50	12.5	2.5	0.3	2.8
Total			514.0	48.5	79.4	127.9

Source: Calculations by William W. Kaufmann.

a. See note c, table 1.

b. Numbers taken from the International Institute for Strategic Studies, *Military Balance 1993–94*; various pages; 93–106 (October 1993).

c. Unit cost times number of units.

d. Replacement cost divided by half the service life of the unit. Includes procurement, RDT&E, and military construction.

e. A percent of replacement cost based on historical averages. Includes military personnel, O&M, housing.

nity for specific measures of reassurance to preclude any sudden large threat, and on that basis they would set a brisk schedule for reducing their forces. On behalf of its own powerful interests, the international community would generously comply. Other large military establishments would adopt commensurate constraints and quickly invest the several billion dollars needed to downsize the Russian establishment in a manner that is humanly decent, politically safe, and economically productive.

Systematic reassurance of this sort is not adversarial and in that sense is fundamentally different from traditional arms control, whose aim is to constrain a continuing confrontation. But the applicable measures are similar. Their basic purpose, to relieve military pressure and to convey confidence in legitimate security requirements, is accomplished by keeping force deployments too small to stage overwhelming offensive operations and by introducing “transparency” rules and standards for force operations that preclude surprise attack. These standards and rules enable participating military organizations to determine with fair certainty that they do not face any immediate prospect of a major engagement and that they would have reasonable warning before such a circumstance could arise. What so burdened the major military establishments during the Cold War was the need to prepare for large conventional force operations on short notice.

Russia would require four specific measures of reassurance. First, a substantially smaller Russian military establishment—some 500,000 to 700,000 people—would have to acknowledge that it could not immediately block a large Chinese ground incursion into Siberia. With adequate financing a smaller Russian force might well fare better than the current large one does, but it could not aspire to complete self-sufficiency. Hence China would be one key to providing reassurance. Second, Russia’s air defense system is probably unable to handle the sophisticated air incursions of which the West is technically capable—a matter of particular historical sensitivity. Full integration into Western Europe’s military air traffic control system would be necessary to give Russia access to the most advanced technology and to prevent air attacks from being prepared without their knowledge. Third, Russia’s nuclear forces should not have to maintain the capacity for rapid reaction—that is, to initiate full-scale retaliation in response to tactical warning. Fully adequate, and safer, deterrent postures can be designed that are operationally and financially less draining, but they must be jointly implemented and necessarily involve cooperative surveillance and warning arrangements. Fourth, Russia’s military establishment cannot be left with the full burden of dealing with civil violence in former Soviet republics. This issue in particular requires substantial elaboration of international security collaboration.

In general, measures of reassurance support legitimate national security interests and make their accomplishment less burdensome. They are an important supplement to the classic collective security guarantee—the promise to fight in defense of an ally that is

attacked. Fully developed, they effectively transcend that guarantee. The members of NATO do not now feel the need to apply article V of the treaty to each other, although in the rememberable past they certainly did. All the states of Eastern Europe and the former Soviet Union are very much in need of these measures, but as a practical matter none can be reassured until the Russians are.

The Actual Situation

Alas, vital interest is not an observable object, but a political construct, the product of fallible human judgment. At the moment Russia, most in need of reassurance, does not welcome it, for it involves explicitly acknowledging weakness in traditional military terms. And the United States, most critical in conveying reassurance, is reluctant to give it, for it involves acknowledging the fading significance of traditional military strength.

Under the START agreements, for example, active U.S. nuclear weapons deployments are being cut, but even so the U.S. deterrent force will be as swiftly and as decisively lethal to Russia as it ever would have been to the Soviet Union. That capability imposes on Russia the burdensome requirement for rapid reaction. Similarly, U.S. conventional forces have been cut by about 30 percent since 1990 and have been redirected to unspecified regional contingencies, but their capabilities, particularly those of the Navy and the tactical air forces, are highly flexible. Combined with the capabilities of formal allies, they will exceed the demands of any regional contingency and are implicitly a hedge against a return to confrontation with the Russia. At any rate, they pose the standard against which the Russians compare their own capability.

Under the Partnership for Peace program, the United States and other NATO members are offering limited security collaboration with Russia and the Central European states, but they have made it apparent that Russia will not be eligible for full membership in NATO, while its former allies will be. Moreover, although the partnership is supposed to include preparations for peacekeeping operations, NATO members have offered Russia no material help in handling the violent insurrections that have arisen in the area that was once the Soviet Union. Russia is being warned not to pursue imperialist policies toward the former Soviet Republics, with the suggestion that Western protection might be extended to any state so threatened, but is being given no help in preserving civil order. Altogether, U.S. policy imposes a continuing confrontation on the Russian military establishment that it cannot afford to bear.

For its part, Russia has not only accepted but assertively encouraged the continued isolation of its military, substituting nationalist sentiment for communist ideology as the political rationale. Russia has approached the formally opened door—the Partnership for Peace—with a skepticism and reserve that reinforce rather than contest its limits. In particular, Russians are being cautious, if not to say suspicious, in discussing with NATO the eastward extension of the military air traffic control system. An objective ob-

server might well judge this attitude to be an understandable reaction to Western behavior, but that does not make it wise.

An Element of Hope

As yet no statesman has emerged with the inclination to define a new security order and the political capacity to bring it about. But that does not mean that a new order is unattainable. The world transformation now under way has certainly not been the product of conscious political leadership and might well proceed primarily, even entirely, without it. If there are no architects on the scene, there are nonetheless some pragmatic craftsmen with constructive instincts.

One principal hope in that regard is the bilateral security dialogue that has developed between Russia and the United States outside of NATO and other formal alliance arrangements. That dialogue has been inspired by the specific mutual problem of deactivating nuclear weapons, an issue on which both establishments are vulnerable to political recrimination. Each has fabricated tens of thousands of nuclear weapons with no provision for disposing of the fissionable material embedded in those weapons or otherwise managing it over the extremely long spans of time it will be dangerous. The logic of confrontation that inspired the effort and expense to create the weapons will not inspire a comparable effort to dispose of them, and yet any misadventure in that regard would become an enormous scandal. That circumstance has been compelling enough to override standard political attitudes. It produced legislation, sponsored by Senators Sam Nunn (D-GA) and Richard Lugar (R-IN), authorizing the United States to provide financial and technical assistance to deactivate the nuclear weapons the Soviet Union deployed. That legislation has set up a channel and an agenda for collaboration.

Implementation of the legislation has predictably encountered both inertial and ideological resistance on both sides. The respective security bureaucracies have so encumbered the process that the actual flow of resources has been a fraction of the \$969 million formally authorized and the results accomplished so far have not transformed the strategic relationship. Still the exercise has generated a broad agenda of discussion in recognition of the fact that the specific purpose of deactivating excess nuclear weapons cannot be disentangled from the overall context of security. Russian and American military planners are now directly engaged with one another on most of the critical topics, and the seeds of systematic collaboration are being sown. Professionals at the apex of the two planning systems may come to recognize the character and the urgency of the circumstances that drive them together before their political systems have fully absorbed the lesson. A great deal rides on the progress of this dialogue.

In the end, however, and by whatever means, there is no alternative to an explicit reconceptualization of policy. America's new strategic interests must be recognized and then broadly absorbed and endorsed by the American people. We all have much to discuss and a long way to go before we will be capable of leadership in the new situation. ■

B O S N I A ' S

A F U N D A M E N T A

YAHYA M.
SADOWSKI

Serb nationalists are convinced that the Muslims of Bosnia are fundamentalists intent on establishing a radical, Iranian-style Islamic republic—one in which all women would be veiled and all Christians oppressed. Since 1992, say the Serbs, Muslims have been conducting a jihad, a holy war, against Serbia, in the pursuit of which they have castrated young men and crucified babies. If the war against Serbia succeeds, they warn, the Muslims will be in a position to threaten the rest of Europe.

Some important political leaders in Europe, while dismissing the more paranoid aspects of the Serb nationalist vision, share their dread that Bosnia might become an Islamic beachhead in the West. In France, Gaullist leaders admit they fear “the emergence of a kind of Gaza strip in the midst of the Balkans. . . . There’s a widespread view that an isolated Muslim entity would not prove viable and that a drift to radical Islamic politics would follow.”

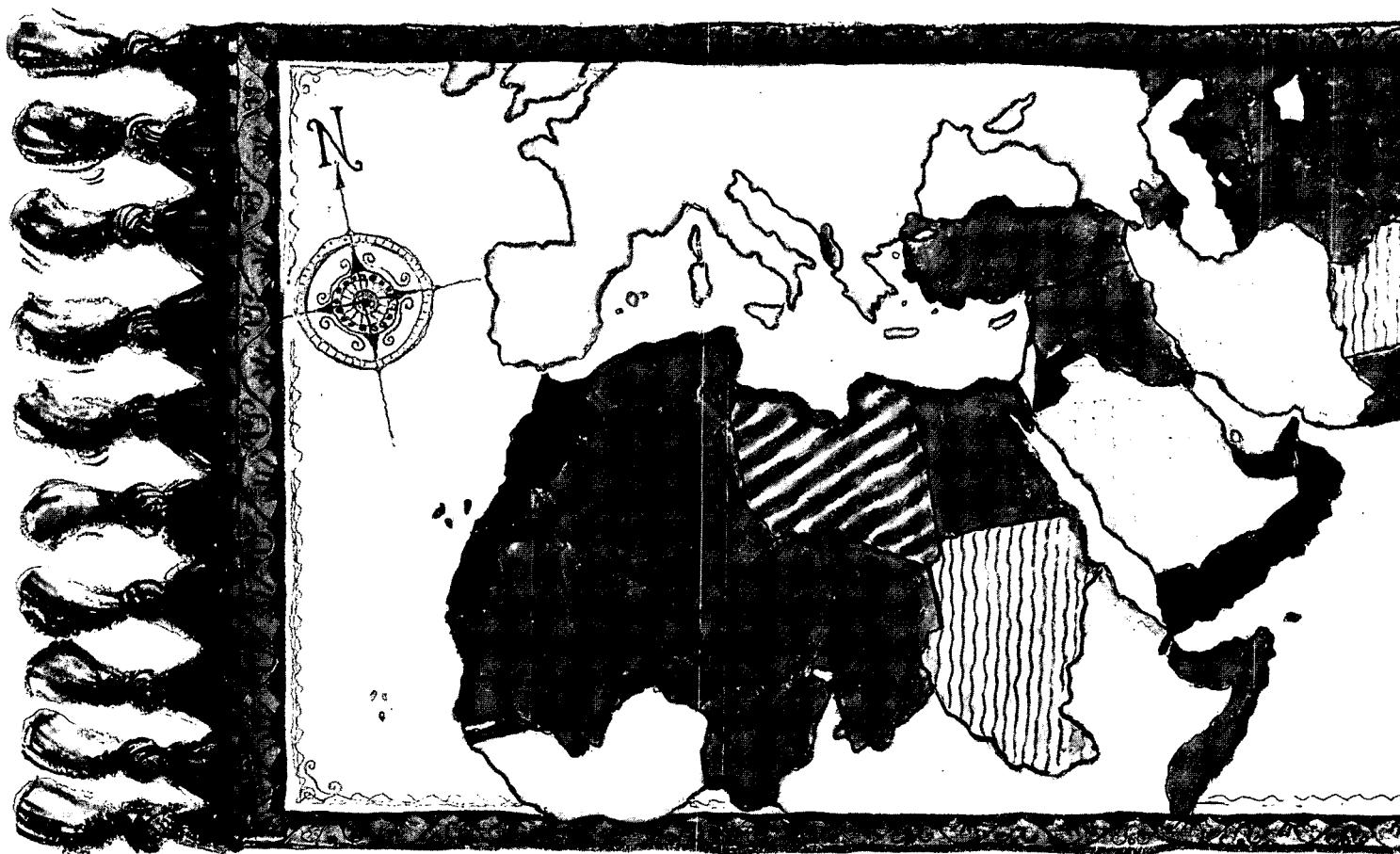
Lately, anxiety about “Bosnian fundamentalism” has begun to spread. Some of Bosnia’s western partisans, including Margaret Thatcher, have inadvertently stoked these fears by arguing that if the West does not intervene forcefully to protect Bosnia—a prospect

that no longer seems likely—embittered Bosnians will be driven toward fundamentalism, forming an “Islamic timebomb” in the soft underbelly of Europe.

It may be understandable for Westerners to project onto Bosnia concerns that originally developed in their confrontation with the Middle East. But, as a closer look at Bosnia’s Muslims will show, it is also a mistake—with potentially disastrous consequences.

Fundamentalism vs. Islamism

The term “Islamic fundamentalism,” lately a buzzword for journalists and officials alike, makes many experts on the Middle East uncomfortable, for it lumps together tendencies within political Islam that are not only quite distinct but even antagonistic. In the early 1980s French scholars sought a more sophisticated terminology to distinguish among different currents of Muslim political thought. They reserved the term “fundamentalism” for the doctrine that Muslims should draw inspiration solely from the Qur’an and the Sunna (the example of Prophet Muhammad) and reject all non-Islamic traditions and values accumulated over the past 1400 years. That doctrine appeals to urban elites, particularly merchants



MUSLIMS

LISTEN TO THE THREAT?

and the bourgeoisie, who view it as an affirmation of their values against more popular and rustic variations of Islam common among the lower classes, particularly recent arrivals from the countryside. Fundamentalism has been embraced with particular ardor by the ulama, Islamic religious scholars. Politically, fundamentalists tend to favor regimes that strictly enforce Islamic law, the shari'a—as interpreted, not surprisingly, by the ulama. Fundamentalism is now state doctrine in both Iran and Saudi Arabia, despite the Sunni-Shi'a dispute between the two. There are no fundamentalists in Bosnia. There are, however, small numbers of Islamists.

While Islamists and fundamentalists might appear similar to an American, to Muslims themselves the differences are striking. Islamism appeals to intellectuals and professionals who have had Western-style educations or lived abroad. Islamist ideologists invoke some of the medieval clerics who inspire the fundamentalists, but also draw on Western anti-modernist philosophers, such as Spengler, Heidegger, and Althusser. Emulating Leninism, they emphasize the need for a vanguard party organized into cells that can mobilize the masses. Their style of gov-

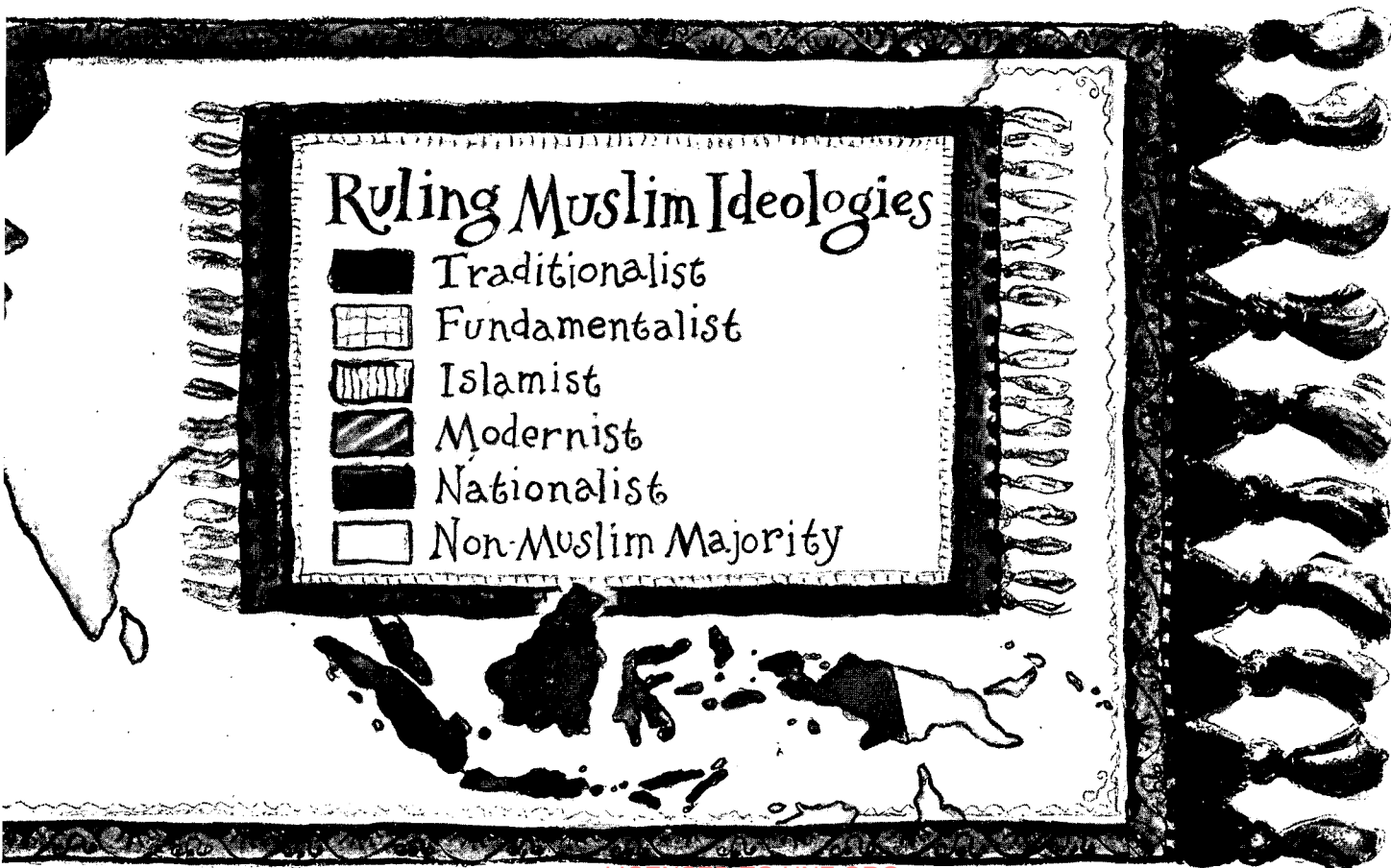
erning is totalitarian, using the power of the modern state and electronic media to prod Muslims to lead Qur'anic lifestyles.

Islamism is a post-modernist doctrine, an attempt to reconstruct a new communitarian ideology by men (and an occasional woman) who have been exposed to, and grown disenchanted with, modernity. Far more than fundamentalists, Islamists have been able to attract a following among the urban poor, a broad and volatile constituency that can make them a real revolutionary threat. The first Islamist movement, the Muslim Brotherhood, was organized in Egypt in the 1930s; its descendants still pose a threat to the regime in Cairo. In recent years, Islamists have seized power in Afghanistan and Sudan and are challenging the rulers in Algeria and the Palestinian entity.

Islamism appeals to some Bosnians. In the 1970s several hundred Bosnian Muslims began to study Arabic and find jobs in the Middle East, where the rise of oil prices had led to a dramatic increase in economic ties with Yugoslavia. For most of these Arabic-speaking Bosnians, the experience was a strictly secular one that boosted their careers in the foreign service and in export-oriented companies. A handful,

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ILLUSTRATION BY
ELIZABETH WOLF



however, were exposed to Islamism and returned to Bosnia full of admiration for the Muslim Brotherhood and similar groups.

But once they returned to Bosnia, their philosophy began to diverge from traditional Islamism. For example, true Islamists insist on strict sexual segregation and view the unsupervised mingling of the sexes as a grave threat to individual piety and social morality. But the Islamic revivalists in Bosnia took a more temperate approach: they encouraged young women to abandon their miniskirts and wear a head scarf as a sign of modesty, but did not discourage friendly conversation and contact between the sexes.

A more serious encounter with Islamism began in 1992, after Bosnia, by then independent, had been viciously attacked. Turkish calls for *Mujahidin* ("freedom fighters") to defend Bosnia drew volunteers, mostly Islamists, came from all over the Muslim world. About 200 made their way to Zenica, a squalid steeltown in north central Bosnia, where they set up military and civilian relief operations. In Zenica's working-class slums they opened Qur'an schools for the locals and pressed young women to adopt the veil. Young men flocked to their banner and formed armed bands of their own that eventually coalesced into a sizable militia, the Muslim Armed Forces (MOS).

In 1993 Zenica provided a taste of what Bosnia might have become if the Islamist current had caught on. Toughs from the MOS wandered the streets, challenging local Serbs and Croats, harassing young girls for being immodestly dressed. In the summer, when the local alliance of Muslims and Croats against Serb radicals broke down, the MOS grew increasingly aggressive and unruly. They kidnapped the Imam of Zenica for opposing them, vandalized a local monastery, and several times had to be prevented by the *Armija*, the regular Bosnian army, from massacring civilians. In September, MOS forces in retreat from the village of Uzdal murdered 35 Croat civilians, the first time Muslim forces had engaged in anything resembling the "ethnic cleansing" that their enemies had been practicing for more than a year.

Yet Islamism did *not* catch on. The ruthlessness of the MOS alienated much of the local population. As an imam in the small town of Ljubuski put it, "This is not jihad. This is an unholy war." By the end of 1993, the number of volunteers for the MOS, the enrollment in Qur'an schools, and even the number of *Mujahidin* had begun to decline. It was clear that the handful of Islamists still active would remain a marginal force in Bosnia.

Traditionalism and Reformism

What types of Islam *do* appeal to Bosnian Muslims? It all depends. Villagers in Bosnia are much more likely than urbanites to describe themselves as "believing" Muslims, to fast during the month of Ramadan, to join community prayers on Friday. Village life, in Muslim as in non-Muslim societies, breeds a distinctive brand of conservatism that tends to conflate village tradition with revealed religion. Thus, Bosnian villagers regard local customs as integral elements of Islam. When villagers are mobilized into politics and an-

nounce themselves ready to "defend Islam," they usually mean that they want to restore all aspects of traditional village life. They will often steadfastly follow traditional leaders out of a sense of religious obligation. "Traditionalism," in which rural elites swath their interests in the banner of the Prophet, is a third distinctive variety of political Islam.

Traditionalist Islam enjoyed a brief resurgence in Bosnia in the late 1980s. In 1988 about 500 of Bosnia's 3,000 imams gathered in Tuzla to lament the decay of morality and call for the reintroduction of traditional Islamic codes regarding schools, the role of women, and other practices. But the Imam's Movement, and Bosnian traditionalists generally, lacked the resources and organizational skills to form a durable political force. The real leadership of the Muslim community in Bosnia, whether clerical, political, or intellectual, remained in the hands of nontraditional urban elites.

The senior ulama in Bosnia have been surprisingly progressive. While some are moderately conservative, most subscribe to reformism, the fourth variety of political Islam. Perhaps because reformism is relatively rare in the Middle East (though it has played a critical role in both Central and South Asia), it is little known in the West. Like Islamists, reformists tend to be intellectuals and professionals exposed to Western ideas. But reformism has been most popular in societies, like India and Bosnia, where Muslims are a minority, and its doctrine contrasts dramatically with that of Islamism.

Alija Izetbegović, elected independent Bosnia's first president in 1991, is a classic reformist. In 1946, at the age of 21, he was sentenced to three years in prison for protesting Tito's closure of Islamic courts and voluntary associations. After a career as a business consultant, he was arrested again in 1983 and charged with trying to create "an ethnically pure Muslim Bosnia-Herzegovina." At his trial, which became the political event of the decade in Bosnia, he was sentenced to 14 years in prison.

The main evidence presented against him was his 1970 paper, *The Islamic Declaration*, which, indeed, contained much to which Yugoslav officials (or communists anywhere) were bound to object. It denied the importance of class struggle, praised Anglo-Saxon philosophy, and denounced socialism for doing little to correct economic backwardness. But nowhere did it call for creating an Islamic state in Bosnia or even an independent Bosnia. To the contrary, it argued, "The Islamic order can be realised only in those countries in which Moslems represent the majority of the population. Without this majority, the Islamic system is reduced only to naked power (because the second element, the Islamic society, is missing) and may turn into tyranny."

This conclusion follows from *The Declaration's* embrace of the central doctrine of reformist Islam: its insistence that truly moral behavior can only be the product of the individual conscience. The state cannot impose virtue: "A multitude of laws and complex legislation is usually a sure indication of 'rot' in a society and that it is necessary to stop introducing laws and to begin educating people." Instead of advocat-

ing an Islamic state, the *Declaration* calls for the creation of a new Islamic intelligentsia who will inspire a cultural renaissance.

Emphasis on the spirit of the Qur'an rather than the formalism of the shari'a sets Izetbegović—and all reformists—sharply apart from other varieties of political Islam. Fundamentalists view the shari'a as the infallible blueprint for a perfect society. Islamists, while admitting that the shari'a cannot provide guidance for all contingencies of modern life, still embrace it as a constitution, as a foundation on which detailed legislation may be built later. Reformists see no single blueprint for all Islamic societies, whether in the Qur'an, the Sunna, or the shari'a. Islam, they maintain, is a system of values, rather than an eternal set of social institutions. As Izetbegović put it, "Nothing which makes this world a better place can be rejected a priori as non-Islamic."

The Qur'an's commandment, "There shall be no compulsion in matters of faith," is taken seriously in Bosnia. Even in rural communities, religious officials commonly say that although Islam proscribes alcohol and pork, "each man must make his own choice." Imam Ismet Spahic reflected a deeply rooted attitude when, despite losing his wife and three daughters in the 1993 siege of Sarajevo, he insisted, "Religion is a private thing for each individual. No single religion is the state religion. You have to have complete freedom."

In some areas, particularly gender relations, reformists demand changes in traditional Islamic customs. While reformists find feminism unattractive, their own male chauvinism tends to resemble Victorian prudery more than classic Middle Eastern patriarchy. They understand that keeping women illiterate and secluded depresses the overall level of education and workforce skills available to society. The insight is not a new one for Bosnian Muslims. Already in the 1920s Džemaludin Čaušević, the leader of the ulama, said, "I had rather see a Muslim girl unveiled and honorably earning her living, than a girl who walks round the streets veiled in the daytime and spends the evening in a cafe."

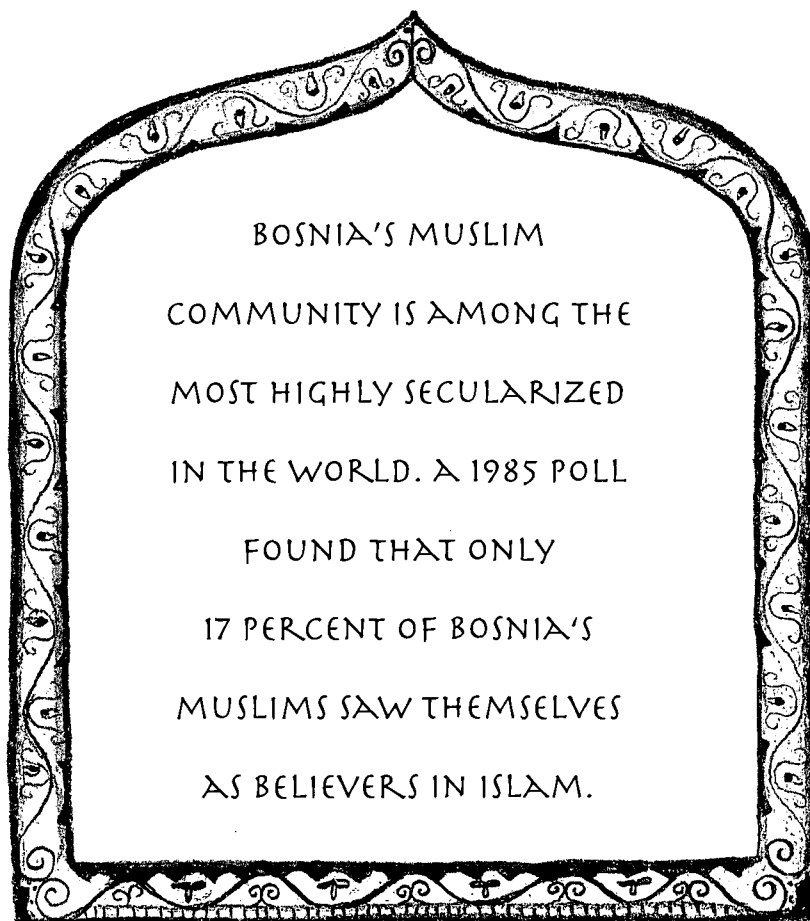
Two Varieties of Nationalism

In 1990 citizens of the Yugoslav republics voted in multiparty elections for the first time since before World War II. In the October balloting in Bosnia the largest vote-getter was the Party for Democratic Action (SDA), headed by Izetbegović. The SDA won 87 out of the 240 seats in the Bosnian Assembly, taking 37.8 percent of the popular vote. Electoral analysts agree that the balloting strongly followed ethnoreligious lines: most Serbs voted for the Serbian Democratic Party (SDS), most Croats for the Croatian Democratic Union (HDZ), most Muslims (perhaps 86 percent) for the SDA. The vote would seem proof that Izetbegović's brand of reformist Islam is popular among Bosnian Muslims.

In fact, reformists, even when combined with traditionalists and any other variety of devout Muslim, form a clear minority among Bosnian Muslims. Bosnia's Muslim community is among the most highly *secularized* in the world. A 1985 poll found

that only 17 percent of Bosnia's Muslims saw themselves as believers in Islam. Particularly in urban areas, "Muslim" tended to be a cultural identity defined not by common convictions but by common customs, such as circumcision or having godparents cut a one-year-old's hair, that no longer have great religious significance.

The extent of secularization is especially evident in the ease with which Bosnian Muslims have intermarried with non-Muslims. In 1981, 15.8 percent of all Bosnian children were the products of mixed mar-



riages. In Sarajevo 45 percent of families were mixed, and members were often not even sure to which community their spouses belonged. Bosnian Muslims have never been distinguishable from their Serb and Croat neighbors either by language or by appearance; by the 1980s at least the urban branches of the three communities had also come to share very similar values.

Election analysts were stunned by the support given Izetbegović's SDA by Bosnia's highly secular Muslims. Pre-election polling had given the nod to the Alliance of Reform Forces of Bosnia-Herzegovina, a secular, multiethnic party. But the alliance received less than 6 percent of the vote—about the same as the other main multiethnic party, the Bosnian League of Communists. Huge numbers of secularized Muslims abandoned these parties and cast their ballots for the Islamic reformer Izetbegović—why?

Naturally, several things were at work. The SDA victory in Bosnia partly reflected a much wider trend: all over Eastern Europe, people were voting against anyone who seemed like a communist or a holdover from the old regime. The trend was especially strong in Bosnia, where the local League of Communists, already weakened by corruption scandals in the 1980s, had dissolved at the beginning of the year. As the cachet of communism declined, the appeal of Izetbegović increased. Though he lacked the charisma of a Vaclav Havel, he was certainly the most famous po-

Fikret Abdić, a completely secular figure who had been an intimate of Bosnia's communist leadership in the 1980s. Izetbegović and his supporters wanted to make the SDA into a "big tent" with a very broad base of support.

Yet the SDA was from its inception clearly a party of the Muslims of Bosnia. Its founding congress in May had debated and rejected the idea of presenting itself as a multiethnic party. As Izetbegović argued, "For now, unfortunately, our party *must* be sectional. The parties that try to represent everyone are small and weak. There is a real risk of civil war here; our main aim as a party is to keep Bosnia-Herzegovina together. . . . We need a big party, then we need political power." The election results bore him out: victory went to parties like the SDA that appealed to many classes but only one confession, while the multiethnic parties that appealed to many confessions but one class (white-collar workers) lost.

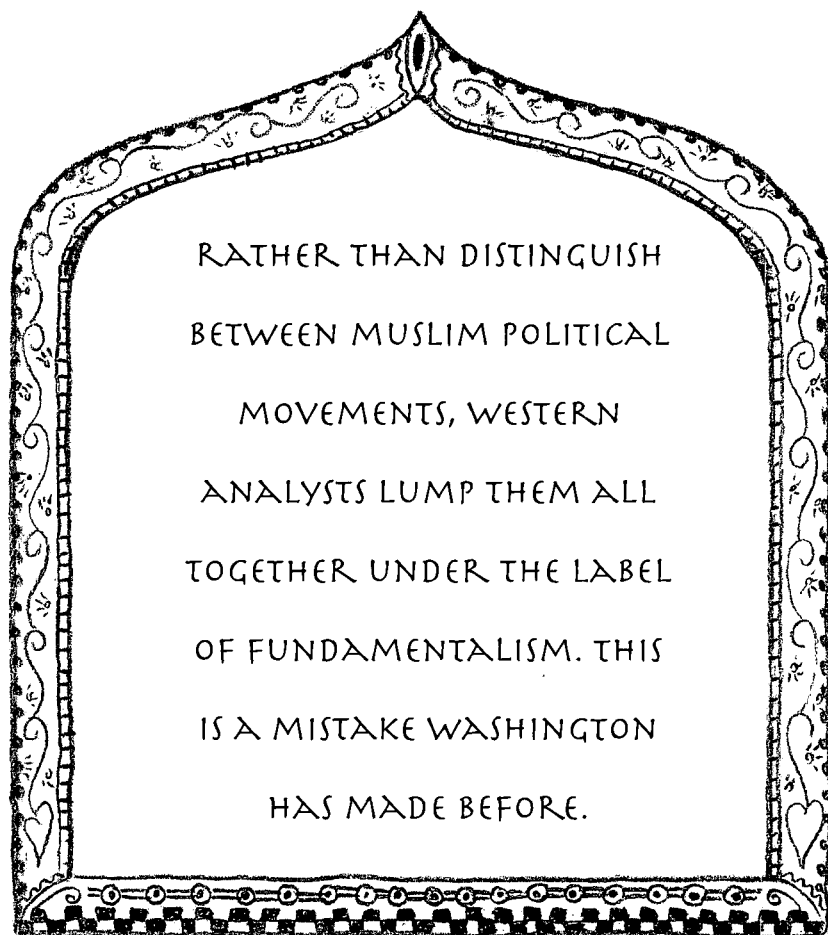
But perhaps the key to the SDA's success was its program. Understanding that the social and political forces promoting solidarity among Muslims were not fostering any great increase of religiosity, SDA leaders offered a secular program whose only reference to religion was an insistence on tolerance. Like most of its rivals, the SDA promised to support development of a market economy and parliamentary democracy. But the crucial issue in the 1990 elections was not social or economic policy; it was the fate of the Yugoslav federation.

The SDA's first commitment was to try to hold Yugoslavia together. Muslims feared, rightly, that the dissolution of the country would trigger a war between Croatia and Serbia that would be fought out in Bosnia. In 1990 Izetbegović and President Gligorov of Macedonia presented a plan for the gradual transformation of Yugoslavia into a confederal union—a plan widely seen as the only way to end the Yugoslav crisis peacefully.

Anticipating that negotiations to keep Yugoslavia together might fail, the SDA also promised to try to keep Bosnia neutral if conflict broke out between Croatia and Serbia. But it also acknowledged that if Croatia and Slovenia seceded, Bosnia would have to follow. Not to do so would mean to accept total domination by Serbia's president, Slobodan Milošević, who had been whipping up Islamophobe sentiments among his people.

Most important, the SDA promised to work to create a tolerant, multiethnic political system that reflected the social diversity of Bosnian society, *whether or not Bosnia remained within Yugoslavia*. Immediately after the 1990 elections the SDA formed a government of national unity, sharing power with the Serb SDS and the Croat HDZ.

Events overtook the SDA program with shocking speed. Serbia killed the Izetbegović-Gligorov plan for preserving Yugoslavia. Croatia and Slovenia seceded in June 1991 and war broke out. Units of the former Yugoslav National Army, now loyal to Serbia, occupied broad swaths of Bosnia and, by September, were encouraging local Serbs to set up "Serbian Autonomous Regions." In October, when Bosnia's parliament



litical dissident in Bosnia. In fact, he was the only party head running in the 1990 elections—in Bosnia or anywhere else in Yugoslavia—who had never *been* a communist.

Perhaps even more important, the SDA seemed a more successful, potentially influential political party than its rivals. While its competitors often focused on entertaining foreign journalists, the SDA put its energies into building up a national mobilizing network that linked urban and rural Muslims. It staged huge public rallies, dwarfing those of any of its rivals, and recruited support from all elements of the Muslim community. SDA rallies featured green banners and other Islamic symbols designed to appeal to believing Muslims. But the party also worked hard to make room for secularized Muslims: the SDA candidate who got the most votes in the 1990 elections was

moved to vote on a declaration of independence, Serb deputies walked out and formed their own Serb National Assembly. When parliament voted for independence, the Serbs retaliated by declaring their own Serbian Autonomous Republic in Bosnia. In March 1992, at the urging of the European Community, Bosnia scheduled a referendum on independence. Support for independence was almost unanimous among the two-thirds of the population that voted, but most Serbs boycotted the vote.

On April 6, 1992, the very day the EC recognized Bosnia's independence, Serb irregulars launched a coup against the government in Sarajevo. That failing, they laid siege to the city. Serbian army units quickly seized control of most of northern and eastern Bosnia. Almost immediately a program of "ethnic cleansing" began. Over the next year, it would displace 1,300,000 people—a third of Bosnia's population—forcing almost 600,000 to become refugees abroad. Some 50,000 people were imprisoned in a highly organized system of detention camps, some of which specialized in torture, rape, and extermination.

Ethnic cleansing has sometimes been portrayed as a series of spontaneous atrocities, executed by drunken irregulars hot from the rigors of combat. To the extent that it is seen to have any political purpose, it is to lay claim to territory by expelling the local non-Serb population. But this is only one of its aims. Many of the worst acts of ethnic cleansing were highly organized, bureaucratic programs conducted under the supervision of the Serbian army. Their intent was to divide Bosnia's Muslims and Serbs by an unbreachable barrier of horror, to implicate local Serbs in a series of outrages that foreclosed any possibility of their again making common cause with their Muslim neighbors.

Many thought that ethnic cleansing would destroy the Muslim community's traditional commitment to tolerance and secularism. In 1993, as the Serb, Croat, and Muslim communities all battled each other, and each at least dabbled in the vice of ethnic cleansing, foreign observers predicted that it was only a matter of time before fundamentalism became popular among Bosnian Muslims.

Yet that is not what happened. Ethnic cleansing did provoke a type of political hysteria among some Bosnian Muslims—but it took the form of secular-nationalist extremism, not religious fundamentalism.

Slogans like "Serbs and Croats out!" began to appear on walls around Sarajevo. In October some senior SDA leaders convened a "Bosniak assembly" in which only Muslims could vote. Angry delegates shouted agreement with economist Kemal Khrelja: "It is time for us to return to ourselves. From now on Serbs and Croats will have the same rights here as Muslims have in Serb- and Croat-held territory." Croats and Serbs already had states. Now it was time, they said, for the Muslims to build one of their own.

Bosnia seemed to be drifting toward the ultimate tragedy. Some Muslims were beginning to emulate the politics of their enemies, abandoning pluralism for nationalist chauvinism. More liberal Bosniak nationalists advocated "a state in which non-Muslims will be welcome but Muslims dominant." But extremists might

have created a Bosniak form of fascism that mirrored the barbarity of the worst Serb militias.

After hitting a nadir in the fall of 1993, however, the prospects for Bosnia began to improve. The drift toward Bosniak nationalism had provoked sharp debate within the SDA. Kerim Kućarević seceded from the SDA and established a breakaway party dedicated to fostering a multiethnic Bosnian state. More important, Haris Silajdžić, the foreign minister and Izetbegović's heir apparent, led a successful campaign to keep the SDA committed to a multiethnic vision. The end of the feud between the *Armija* and the HDZ last February also helped dampen the popular appeal of Bosniak nationalism.

Pluralists now dominate both the leadership of the SDA and the Bosnian government. But if the war and the occupation and the terror continue, Bosniak nationalism may make a comeback. Prominent members of the SDA are still campaigning for this option. Enes Karić, Minister of Culture, has tried to forbid Sarajevo radio stations from playing songs written by Serbs. Džemaludin Latić, editor of the SDA weekly *Ljiljan*, advocates a ban on mixed marriages.

The political alternatives facing Bosnian Muslims today are two forms of secular nationalism. In one, Bosnia would be a multiethnic society in which no single community should dominate. In the other, Bosnian Muslims would predominate. While the triumph of Bosniak nationalism might be unfortunate, the prospect needs to be kept in perspective. Bosniak nationalism is no different from Croat or Serb nationalism. Why should the world worry about nationalism emerging in Sarajevo if it already prevails in Zagreb and Belgrade? In any case, Islamic fundamentalism, or indeed any variety of political Islam, is not an option in Bosnia.

Few Western analysts seem to appreciate this. Rather than distinguishing between and maneuvering among various Muslim political movements, they lump them all together with Hindu, Buddhist, and Christian extremists under the label of fundamentalism. This is a mistake Washington has made before. Arguably the most dramatic error in recent American foreign policy was the failure to recognize that communism was not a monolithic movement. Because America feared Chinese expansion, it spent billions of dollars and thousands of lives fighting an independent, highly nationalistic variant of communism in Vietnam. The strategic opportunity to divide Russia from China languished for 20 years until President Nixon finally "discovered" and exploited it in 1972.

America is on the verge of making the same error again. Rather than examining the diverse ways in which poverty, corruption, and autocracy combine to fuel war, we are circling our wagons in preparation for a global confrontation with "ethnic" movements. To succeed in the post-Cold War world we will have to discriminate among the sundry parties to the world's conflicts, to learn which are really threatening and which are not. The alternative is to content ourselves with simplistic slogans, our own version of the Serb militant's claim that "The only good Muslim is a dead Muslim." ■



The most misleading word in the ongoing debate about the governance and control of large, publicly traded corporations is “owner.” In much of the media coverage about takeovers and boardroom shakeups, as well as in the vast academic and policy literature that has sprung up in the past few years in response to these events, the unexamined assertion is made that corporations are “owned” by the individuals and institutions that hold the common stock of the companies. Disputes between corporate managers and shareholder groups are casually said to be about whether managers can be made to do what “the owners” want them to do.

The problem with calling shareholders the owners of corporations is that the word “owner” has such a powerful, almost moralistic meaning in U.S. culture. Its use in this context cuts off debate by implying that certain rights and prerogatives should, by the very nature of things, flow to shareholders. In so doing, it presupposes the answer to important questions that need to be addressed by those legitimately interested in improving corporate governance—questions about the rights and prerogatives not only of shareholders, but of other participants in the firm.

The Rights and Responsibilities of Ownership

With respect to real property or other well-defined physical assets, to “own” something normally means to have certain rights and responsibilities with respect to that property. These include the right to possess or

Corporate “Ownership”

M A R G A R E T M . B L A I R

A MISLEADING WORD MUDDIES THE CORPORATE GOVERNANCE DEBATE

dispose of the asset, the right to use it in any way not specifically prohibited by law or proscribed by prior contract, the right to receive any returns generated by the asset or the proceeds from its sale, and the responsibility for bearing certain risks associated with possession and control of the asset, including the responsibility for seeing that the property is not used in ways that harm others, or for paying the penalty if it is misused. With physical assets, such as land or buildings or vehicles, we take it for granted that these various rights, prerogatives, and responsibilities are bundled together and assigned to the same party—the owner.

But, as anyone who has spent any time advising Eastern European or former Soviet-bloc countries about privatizing their industries can attest, the fact that these rights and responsibilities are often bundled together in the United States is not a matter of natural law, but of legal and social convention. In fact, where these rights and responsibilities are not bundled together and assigned to a single party, it is virtually meaningless to designate any one party as the owner. And the reverse is true as well: simply calling one party the owner does not mean that any particular rights or responsibilities will, or should, necessarily follow.

In the commercial real estate market in Russia, for example, local governments are nominally regarded as the owners of most commercial property. But the right to control the use of the building often resides with the occupant, while the responsibility for maintaining the building resides with yet another party, often some state agency or enterprise that may or may not be entitled to collect some of the rents. The federal government heavily regulates and restricts the sale of property. The various responsibilities for, and control rights over, the commercial buildings are so divided up that there is often no one party who can benefit from having buildings maintained well and rented to tenants who can use the space to best advantage, *and* who has the power to see that this happens. The result is that many perfectly good commercial buildings sit empty and unused in Moscow while merchants do business from kiosks on the streets.

As this example illustrates, dividing up the various ownership rights and responsibilities for real property

among different parties can create very distorted incentives that can discourage investment in useful assets or lead to serious misuse or neglect of existing assets.

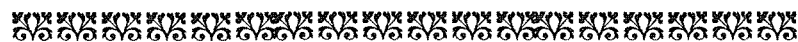
The Corporation: Ownership Unbundled

But there are often good reasons for dividing up ownership rights and responsibilities. The large, widely traded corporation is a familiar example of an institutional arrangement that has evolved in Western countries in which the various rights and responsibilities that we associate with the ownership of real property are not bundled together, but instead have been parceled out to numerous participants in the enterprise. The fact that managers control the day-to-day decisions, for example, while shareholders—who are separate parties from managers—provide financial capital and bear certain risks makes it possible to assemble much larger amounts of capital than could be assembled if capital could be raised only from the personal wealth of managers.

In exchange for contributing financial capital, shareholders in widely held corporations receive a security that gives them the right to certain kinds of distributions made by the firm and the right to elect directors. But they do not have a direct claim on any of the tangible or intangible assets of the corporation, nor do they have the right to control those assets, nor even the right to control directly the decisionmaking by managers. Even if they technically had such rights, shareholders in large corporations, who may number in the thousands, turn over regularly, and be anonymous to the corporate managers, would have a very difficult time exercising these rights. Shareholders also have the benefit of “limited liability,” by which we mean that individual shareholders can never be held personally responsible for the debts of the corporation. Thus, while it is perfectly consistent with normal usage to say that shareholders “own” their shares, in large, widely traded corporations shareholders have almost none of the characteristic rights and responsibilities that we would expect them to have as owners of the corporation itself.

If shareholders aren’t the owners of corporations, who are the owners? The question reflects a serious misconception about what corporations are, a misconception that, unfortunately, has been hugely influential

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CORPORATIONS ARE NOT SIMPLY BUNDLES
OF PHYSICAL ASSETS. THEY ARE LEGAL
STRUCTURES WHOSE ROLE IS TO GOVERN THE
RELATIONSHIPS AMONG ALL THE PARTIES
THAT MAKE SPECIAL INVESTMENTS IN THE
WEALTH-CREATING ACTIVITIES OF THE FIRM.



in finance, economics, and law in recent years. This is the idea that corporations should be regarded as bundles of physical assets that belong to the shareholders, while managers and directors should be regarded as the hired guns whose job it is to manage the assets for the shareholders. This view of corporations forms the basis for policy arguments that have come largely from the financial community and from academia to the effect that shareholder rights should be significantly strengthened and legal impediments to hostile takeovers removed. This view of corporations also provides an intellectual justification for a large body of empirical research that has been used in the past 15 years to assess whether hostile takeovers, leveraged buyouts, and other corporate governance-related transactions are good or bad for the economy as a whole. This research relies on statistical tests that measure only one kind of outcome of such transactions: what happens to the stock price when the transaction is announced. If corporations are bundles of assets that belong to shareholders, and if stock prices accurately reflect the value to shareholders of those bundles of assets, then anything that increases the stock price must, by definition, create wealth for the economy as a whole.

How Corporations Create Wealth

This approach to thinking about wealth-creating activities in corporations, and about how certain kinds of transactions and certain public policies affect wealth creation, is misleading and misguided because it leaves out an important part of the way corporations create and distribute wealth and thereby contribute to economic growth. Corporations are not simply bundles of physical assets. They are legal structures whose role is to govern the relationships among all the parties that make special investments in the wealth-creating activities of the firm. To be sure, this includes shareholders, and equity capital is an extremely important part of the total mix of inputs. But it is not limited to shareholders. Suppliers, lenders, customers, and especially employees often make special investments whose values depend heavily on their ongoing relationship with that one company. Long-term employees, for example, are likely to develop specialized skills, or “human capital” that is valuable mainly to one particular company. Or suppliers may build a plant in a special location just to meet the needs of one company.

Specialized investments present a difficult governance problem because, by definition, they cannot be readily redeployed somewhere else at a comparable return. This means that the individual or other party that makes the investment runs the risk that the value of the investment will be lost if the enterprise fails. But generally, the success of the enterprise as a whole depends on the collective contributions of a number of individuals. A highly specialized machine may be much more productive when operated by a team of highly skilled workers who have been trained to use that machine than it is in the hands of untrained workers. Likewise, those workers, once trained, may be more productive when they are working as a team with that particular machine than any one of them would be if he or she moved to a different company.

In such a case, the wealth-creating activity arises from the joint use of “firm-specific physical capital” and “firm-specific human capital.” Shareholders could, in principle, own the physical capital, but the physical capital is worth less without the human capital, and shareholders could never own the human capital.

Corporations are one of the arrangements by which the use of such “co-specialized” assets (the machine and the team of skilled workers, for example) is organized and managed. In principle, any party that controls one of the co-specialized assets could “hold up” the other investors by threatening to withhold his contribution unless he gets a larger share of the surplus wealth generated by the enterprise as a whole.

Recognizing All Corporate Investors

Thinking about corporations as institutional arrangements for governing and managing specialized investments encourages one to focus on the fact that specialized investments can be (and often are) made by employees, lenders, or suppliers, or others, and that these investments are at risk in exactly the same way that investments made by shareholders are at risk. All the parties who make specialized investments in the activities undertaken by a firm presumably do so with some expectation that they will be compensated for these special investments with a share in the extra wealth created by the joint use of the assets within the firm and that they will not be “held up” by the other participants.

Employees who devote years of their lives to one firm, for example, generally do so on the expectation that they will, over time, earn more or have more job security, or both, by staying with that one firm and accumulating firm-specific knowledge, than they would by moving around and frequently changing employers. And there is strong empirical evidence that long-term employees are paid more than they could earn by going elsewhere and are less likely to be laid off than are short-term employees. While there is anecdotal evidence that the benefits of tenure may be declining, there is still good reason to believe that a significant part of the wealth created by the activities of a firm is captured by the “permanent” employees in the form of “better” jobs.

Rewarding employees for their firm-specific human capital investments by giving them job security and higher wages can be interpreted as a governance arrangement that helps solve the “hold-up” problem. Of course, from the point of view of shareholders, any payment to employees in the form of higher wages, better benefits, or more job security is a cost that reduces their share of the return from the enterprise. Thus shareholders always have some incentive to renege on their implicit promise to employees to share the proceeds from the enterprise. But economists usually argue that the implicit, as well as explicit, promises are enforced by the fact that the firm will have to hire employees in the future and must protect its reputation.

Since the early 1980s, two things have changed that appear to be causing the old system to break down. First, the pace of corporate takeovers, mergers, sell-offs, buyouts, and other restructurings has increased to the point that firm identity has been weakened and the

power of reputation as an enforcement mechanism undermined. Moreover, the constant threat of takeovers or other shareholder-initiated attacks on managers and directors has helped keep continuous pressure on firms to get stock prices up and increase the returns to shareholders. Now, pressures to be more efficient are generally fine and useful, except that, in the past few years, the financial markets have been enamored of the idea that the way to enhance shareholder returns is by cost-cutting, downsizing, and layoffs, rather than by investment and growth. The result has been that many of the oldest and largest corporations have been cutting back and laying people off at unprecedented rates.

The second change is that academics and policymakers, and now even many corporate executives and managers, have bought into the notion that the firm is a bundle of physical assets owned by the shareholders. This means that the extra payments to employees for their investments in firm-specific human capital are not being counted as part of the total wealth being created by a firm. Policy analysis and empirical research that looks only at the effect on stock prices conclude that layoffs and cutbacks are wealth-enhancing because the stock prices go up when the companies announce another round. Laws, regulations, court rulings, customs and practices of corporate governance that emphasize the shareholder as owner, with managers and directors regarded as agents of the shareholders, reinforce this mentality. The courts, for example, have told directors that in the event of a takeover offer, directors must try to get the highest possible price for shareholders, almost without regard for the effect of such transactions on other stakeholders. A number of states have tried to soften the impact of these court rulings by passing laws designed to protect directors who do take other stakeholders into account. But the limits of the protection offered by these laws have not been tested yet, and many corporate legal advisers are cautiously urging their clients to maintain a “shareholders only” posture to avoid litigation.

A New View of Ownership Rights

Treating the firm as a bundle of assets belonging to shareholders undermines the expectation of other participants in the firm that their investments will be protected too. Over time this is likely to discourage working people from investing themselves in the companies that employ them. Increasingly, they will come to think of themselves as subcontractors rather than employees—they will do a job only for the immediate return or for the experience it gives them that they can take elsewhere. If that happens, the economy as a whole will lose the potential benefits of investments by these workers in firm-specific human capital.

It doesn't have to work out this way. An alternative view of the future is that the companies that survive and prosper into the next century will be those that best figure out how to foster and nourish their human capital by developing new institutional arrangements to reassure employees that their investments in the corporation will be respected and rewarded. Very likely, such arrangements will look a lot like enhanced “ownership” rights for employees. ■



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ANNE MORRISON PIEHL
AND JOHN J. DIULIO, JR.

“DOES PRISON PAY?”

R E V I S I T E D

Returning to the Crime Scene

Several years ago, in these pages, we tried to referee an acrimonious debate between criminologists who insisted that prisons “cost too much” and those who responded that they “protect too little.” Our contention was that both sides of the debate were stating their positions far too strongly given the lack of available empirical evidence. By presenting new survey data, we hoped to bring a little calm into the storm. But we succeeded only in changing the storm’s direction—toward us. Shorn of most of our peacekeeping illusions, we are back to revisit the question, “Does prison pay?”—again by way of new survey data.

Our original offering was a cost-benefit analysis of imprisonment based on a 1990 prisoner self-report survey we conducted in Wisconsin. The survey, based on a sample of 6 percent of the state’s prison population, found that in the year before their incarceration, half of the prisoners had committed 12 crimes or more, excluding drug crimes. Using the best available estimates of prison operating costs and the social costs of crime, we calculated that imprisoning 100 convicted felons who offended at the median rate cost \$2.5 million, but that leaving them on the streets cost \$4.6 million. We noted that for as much as a quarter of prisoners, other correctional options, such as probation, intensive drug treatment, or some other programs, might well be even more cost effective than imprisonment and we stressed the need for more research.

What we offer now is a new prisoner self-report survey, one that we conducted in New Jersey in 1993 of a random sample of 4 percent of recent male entrants to the state’s prison population. Analysis of this survey reconfirms our earlier finding: prison pays for most state prisoners. Most state prisoners are either violent or repeat offenders who pose a real and present danger to the physical safety or property of any communities into which they might be released. For them, assuredly, prison pays. But prison does not pay for all prisoners. It does not pay for all convicted felons. Most emphatically, it does not pay for all convicted drug felons. The public and its purse could benefit if 10–25 percent of prisoners were under some other form of correctional supervision or released from custody altogether.

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Most Prisoners Are Dangerous, Repeat Criminals

According to Lawrence A. Greenfeld of the U.S. Bureau of Justice Statistics, fully 94 percent of all state prisoners have either been convicted of a violent crime or been previously sentenced to probation or incarceration (see figure 1). Greenfeld's 94 percent statistic is unassailable. But even it understates the actual number and severity of crimes committed by state prisoners.

In the first place, adult prisoner profiles do not reflect the crimes committed by prisoners before they were of age to be legally tried, convicted, and sentenced as adults. Most state prisoners have long juvenile records, which are officially closed to adult authorities and are not considered by adult courts at sentencing time. According to our New Jersey survey, two out of three prisoners had served time in a juvenile institution. Other studies have shown that about 60 percent of youths aged 18 and under in long-term secure facilities have a history of violence. Many studies reveal that between a quarter and a third of juvenile criminals are high-rate offenders who commit a mix of violent and property crimes. Juveniles account for about a fifth of all weapons arrests and have set frightening new homicide records in the 1990s.

In a recent survey, 93 percent of judges in the juvenile system agreed that juvenile offenders should be fingerprinted, and 85 percent agreed that juvenile records should be open to adult authorities. As it now stands, however, juvenile crimes of assault, rape, robbery, burglary, and murder will mean nothing in adult courts and will not appear in statistical profiles of prisoners' criminality.

Second, more than 90 percent of all criminal cases do not go to trial because the offender pleads guilty to a lesser charge. Even violent crimes are routinely plea-bargained—an estimated 77 percent of rape cases, 85 percent of aggravated assault cases, and 87 percent of robbery cases. Unless one believes that all charges that are plea-bargained away are for crimes that the offender did not commit, then one must admit that actual crimes are swept under the criminal-records rug by plea bargaining. As yet no systematic empirical studies have estimated the deflationary effects of plea bargaining on the length and severity of prisoners' criminal records. But many prosecutors believe that the effects are large, and evidence is growing all around the country that they are right.

Third, as our two prisoner self-report surveys plainly reveal, most prisoners commit many times more nondrug felony crimes than they are ever arrested, convicted, and imprisoned for committing.

In the late 1970s the RAND Corporation conducted prisoner self-report surveys in Texas, Michigan, and California. Among other things, RAND's surveys showed that the median number of crimes, excluding all drug crimes, committed by prisoners the year before they were incarcerated was 15. In the late 1980s amidst the first round of controversies over benefit-cost analyses of imprisonment, some asserted that the RAND numbers could not even come close to being replicated in bigger-sample, more up-to-date surveys.

Both our prisoner self-report surveys were modeled on the RAND survey, though in both the sample was

much larger. The 1993 New Jersey survey found that the median number of nondrug crimes committed by prisoners the year before their imprisonment was 12—exactly what it was for Wisconsin prisoners in 1990, and three lower than it was for prisoners in RAND surveys.

Although the exact replication is striking, future surveys will no doubt show that 12 is not a magic number. But serious analysts must now concede that there is less reason to be skeptical that the typical prisoner commits many undetected crimes, excluding drug crimes, the year before his incarceration.

In sum, the Greenfeld data alone are enough to rebut the notion that most state prisoners are petty, first-time, or mere drug offenders with few prior arrests, no previous convictions, no history of violence, and no potential for doing criminal harm if released tomorrow morning. And when we acknowledge that most prisoners commit crimes as juveniles, most prisoners plea bargain away crimes they have committed as adults, and most prisoners have committed a slew of undetected crimes the year before their incarceration, that notion is not only decidedly distorted but downright dangerous. It is a myth that anti-incarceration activists and their allies should be free to peddle, but that no responsible policymaker, prosecutor, judge, journalist, academic, or average citizen can afford to buy.

Calculating Social Costs

Estimating the social costs and benefits of competing transportation or environmental policies is no analytical picnic. But estimating them for imprisonment and other sentencing options is a certain analytical migraine.

For starters, it is widely asserted that it costs \$25,000 to keep a prisoner behind bars for a year. But the latest Bureau of Justice Statistics figures for average annual spending per prisoner are \$15,586 for the states and \$14,456 for the federal Bureau of Prisons (which holds about 10 percent of all prisoners). These figures are calculated by dividing the total spent on salaries, wages, supplies, utilities, transportation, contractual services, and other current operating expenses by the average daily inmate population.

But hidden and indirect costs of running prisons might bring the \$25,000 figure closer to reality than the official spending averages would allow. For example, some tiny but nontrivial fraction of government workers outside of corrections (human services, central budgeting offices) spend time on matters pertaining to prisoners. And Harvard economist Richard Freeman and others suggest that incarceration decreases post-release employability and lifetime earnings potential. Thus an ideal estimate of the social costs of imprisonment would include any relevant spending by other government agencies, plus whatever public unemployment compensation, welfare, and health expenditures result from the negative short- and long-term labor market effects of imprisonment on ex-prisoners.

Also, there is wide inter- and intra-system variation not only in what it costs to operate prisons, but in how prison dollars are allocated as between security functions (uniformed custodial staff), basic services (food, heat, medical supplies), treatment programs, recreational facilities, plant maintenance, and other expen-

ditures. Whatever the best estimate of prison operating costs, such cost differences suggest that efficiency losses are occurring in some places and that efficiency gains are possible in others.

The cost-effectiveness of prisons, however, is by no means strictly determined by correctional administrators. Over the past 25 years the courts have had a major impact on both the total costs of operating prisons and the distribution of prison dollars between security and other needs. For example, in the wake of a sweeping court order, prison operating costs in Texas grew from \$91 million in 1980 to \$1.84 billion in 1994, a tenfold increase in real terms, while the state's prison population barely doubled. Texas is now one of at least 20 states that spends less than half of every prison dollar on security.

Finally, it is worth remembering that barely a penny of every federal, state, and local tax dollar goes to support state prisons and local jails. State and local governments spend 15 times what the federal government spends on corrections. But state and local spending on prisons and jails amounts to only \$80.20 per capita a year, or \$1.54 per capita a week.

Estimating Social Benefits

Whatever the best estimate of how much it costs society to keep a convicted criminal behind bars for a year, how do we decide whether it's worth the money? Imprisonment offers at least four types of social benefits. The first is retribution: imprisoning Peter punishes him and expresses society's desire to do justice. Second is deterrence: imprisoning Peter may deter either him or Paul or both from committing crimes in the future. Third is rehabilitation: while behind bars, Peter may participate in drug treatment or other programs that reduce the chances that he will return to crime when free. Fourth is incapacitation: from his cell, Peter can't commit crimes against anyone save other prisoners, staff, or visitors.

At present, it is harder to measure the retribution, deterrence, or rehabilitation value of imprisonment to society than it is to measure its incapacitation value. The types of opinion surveys and data sets that would enable one to arrive at meaningful estimates of the first three social benefits of imprisonment simply do not yet exist.

Thus, we focus exclusively on the social benefits of imprisonment measured in terms of its incapacitation value. As columnist Ben Wattenberg so vividly put it, everyone grasps that "A thug in prison can't shoot your sister." Thus, if a given crime costs its victims and society X dollars in economic and other losses (hospital bills, days out of work, physical pain, and emotional anguish), and if we know that, when free, a convicted criminal commits Y such crimes per year, then the yearly social benefits of imprisoning him are equal to X times Y. If we accept that it costs \$25,000 to imprison this convicted criminal for a year, then the benefit-cost ratio of imprisoning him is equal to the product of X times Y divided by \$25,000. If the ratio is greater than 1, then the social benefits exceed the costs and "prison pays" for this offender; but if the ratio is lower than 1, then the social costs exceed the benefits and it does not pay to keep him locked up.

But remember: we are monetizing the social

Figure 1. Profile of Prison Inmates, 1991



Source note: Lawrence A. Greenfeld, *Survey of State Prison Inmates, 1991* (Bureau of Justice Statistics). Statistics based on a sample representing 711,000 adults in state prisons.

benefits solely in terms of imprisonment's incapacitation value. Because there is every reason to suppose that the retribution, deterrence, and rehabilitation values of imprisonment are each greater than zero—that is, because it is virtually certain that in addition to incapacitating criminals who would commit crimes when free, prison also succeeds in punishing, deterring, and rehabilitating at least some prisoners under some conditions—our estimate of the net social benefits of imprisonment is bound to be an *underestimate*. And if, therefore, our estimate measured only in terms of prison's incapacitation value is positive, it means that the actual social benefits of imprisonment are even higher and that prison most definitely pays.

Several recent advances have been made in measuring the costs of crime to victims and society. For example, a recent Bureau of Justice Statistics study reports a total of 33.6 million criminal victimizations in 1992. The study estimated that in 1992 crime victims lost \$17.2 billion in direct costs—losses from theft or property damage, cash losses, medical expenses, and lost pay from work.

But the BJS estimate did not include direct costs (for example, medical costs) to victims incurred six months or more after the crime. Nor did it include decreased work productivity, the less tangible costs of pain and suffering, increased insurance premiums and moving costs due to victimization, and other indirect costs.

A 1993 study by Ted R. Miller and others in *Health Affairs* took a more comprehensive view of the direct costs of crime and included some indirect costs as well.

The study estimated the costs and monetary value of lost quality of life in 1987 due to death and injuries, both physical and psychological, resulting from violent crime. Using various measures, the study estimated that each murder costs \$2.4 million, each rape \$60,000, each arson \$50,000, each assault \$25,000, and each robbery \$19,000. The estimated total cost over the lifetime of the victims of all violent crimes committed during 1987–90 was \$178 billion per year, or many times the BJS estimate of direct economic costs.

Even these estimates, however, omit the detailed cost accounting of site-specific, crime-specific studies. For example, a recent survey of admissions to Wisconsin hospitals over a 41-month period found that 1,035 patients were admitted for gunshot wounds caused by assaults. These patients accumulated more than \$16 million in hospital bills, about \$6.8 million of it paid by taxes. Long-term costs rise far higher. For example, just one shotgun assault victim in the survey was likely to incur costs of more than \$5 million in lost income and medical expenses over the next 35 years.

Likewise, several studies have estimated the number of crimes averted by incapacitating criminals. For example, BJS statistician Patrick J. Langan has shown that in 1989 an estimated 66,000 fewer rapes, 323,000 fewer robberies, 380,000 fewer assaults, and 3.3 million fewer burglaries were attributable to the difference between the crime rates of 1973 and those of 1989. As Langan has observed, if only one-half or one-quarter of the reductions were due to rising incarceration rates, that would still leave prisons responsible for sizable reductions in crime. Also he has estimated that tripling the prison population from 1975 to 1989 reduced reported and unreported violent crime by 10–15 percent below what it would otherwise have been, thereby preventing a conservatively estimated 390,000 murders, rapes, robberies, and aggravated assaults in 1989 alone.

Results of the New Jersey Study

What can the New Jersey prisoner self-report survey contribute to a cost-benefit analysis of imprisonment? Table 1, adapted from Mark A. Cohen's analysis of jury awards to crime victims, lists our estimates of the social costs of rape, robbery, assault, burglary, auto theft, and petty theft. For each offender in the New Jersey sample we multiplied these amounts by the annualized number of offenses reported of each type. Table 2 ranks the resulting social costs of crime for the sample. The median social cost of crime was about \$70,098. In other words, half of the prisoners in the sample inflicted more costs on society and half less than \$70,098. The social cost associated with the prisoner in the 25th percentile (that is, 75 percent of the sample inflicted higher social costs than he did) was about \$19,509, and at the 10th percentile it was \$1,650.

Table 3 converts the figures in table 2 to benefit-cost ratios by dividing the social benefits by \$25,000, the cost of imprisoning one prisoner for one year. Dividing the median social cost per crime of \$70,098 by \$25,000 yields a benefit-cost ratio of 2.80: for every dollar it costs to keep a median-offending prisoner behind bars society saves at least \$2.80 in the social costs of crimes averted.

The prisoner at the 25th percentile was essentially

a high-rate property offender, reporting that he committed auto thefts at a rate of three a year, burglaries at a rate of six a year, and petty thefts at a rate of 24 a year. Dividing the total social cost of these crimes by the cost of incarceration yields a benefit-cost ratio of 0.78. And at the 10th percentile, the ratio is a clearly cost-ineffective zero.

Just Say No to No Parole

Clearly, the social benefits of incapacitating criminals, however great they may be, are nonetheless subject to the law of diminishing returns.

Make no mistake: within three years of their community-based sentences about half of all probationers either abscond or are returned to prison for a new crime, while roughly half of all parolees are convicted of a new crime. Of the 5 million people under correctional supervision in this country at any given time, 72 percent are not incarcerated. Even violent offenders serve barely 40 percent of their sentences in confinement. Each year community-based felons commit millions of crimes, many violent, that could have been prevented if they had been imprisoned for all or most of their terms.

But efforts, in Virginia and elsewhere, to abolish parole are too tough by half. For while about half of all parolees recidivate, the other half do not. Nationally, each year we spend more than 7.5 times more on prisons and jails (which house 28 percent of offenders) than we do on probation and parole (which account for the remaining 72 percent) combined. Thus we spend more than 20 times as much to hold each prisoner as we do to supervise each community-based offender. No doubt a large fraction of the parole population should be imprisoned. But a no-parole policy lowers rather than increases the chances that the system will sort offenders cost-effectively.

This is especially true where drug offenders are concerned. Between 1980 and 1992 the fraction of new state prisoners whose most serious conviction offense was a drug offense rose from 6.8 percent to 30.5 percent. Does that mean that one-third of the prison population consists of "mere drug offenders"? By no means. The vast majority of this group are recidivists with many a nondrug felony on their rap sheets, to say nothing of juvenile crimes, crimes they plea-bargained away, and crimes they got away with completely.

Then what fraction of prisoners might be accurately characterized as "drug-only offenders," meaning offenders whose only adult crimes have been drug crimes? At this point we have no way of knowing. But about 27 percent of the New Jersey sample reported that in the four months before incarceration their *only* offenses were drug sales. Nearly a quarter said they first got involved in crime to get money for drugs. And 3 percent were convicted of drug possession and reported no other crimes.

To be consistent methodologically, we must consider the incapacitation benefits of incarcerating such a substantial population. Doing so dramatically changes the results and the implications of our analysis. We believe that the best estimate of the incapacitation effect (number of drug sales prevented by incarcerat-

ing a drug dealer) is zero, and therefore value drug crimes (sales and possession) at zero social cost. Other analysts, including many whom no one can accuse of being soft on drug crime or in favor of drug legalization, have reached similar conclusions. For example, in a recent issue of *Commentary*, James Q. Wilson observed that prison terms for crack dealers "do not have the same incapacitative effect as sentences for robbery. . . . [A] drug dealer sent away is replaced by a new one because an opportunity has opened up." Many law enforcement and corrections officials have reached the same conclusion.

As table 4 shows, including drug offenders in our analysis lowers the cost-effectiveness of incarceration across the board: even at the median, imprisonment appears to be very expensive. If even half of the inmates who report that their only crime was selling drugs are telling the truth, then 15 percent of New Jersey's spending on prisons is being devoted to "sending a message" about drug dealing. We are open to convincing evidence that the public is willing to pay substantial sums for retribution against drug dealers. And we are aware that certain types of prison-based drug treatment programs can work to reduce the chances that an offender will return to drugs or crime upon release. But let no one suppose that by incarcerating most drug offenders we succeed in averting lots of drug crimes. If there is an empirically sound argument for a no-parole policy that makes no distinctions between drug-only offenders and other prisoners, we have yet to hear it.

Forging a New Consensus?

When we first ventured into the "Does prison pay?" debate, we were struck by the absence of empirical data to buttress the large claims being made on both sides. Now more than ever we are convinced that the path to a new intellectual consensus in this area, as in crime policy generally, can be paved not by disagreeing more amicably about the implications of what is already known (though that could be a pleasant change), but by agreeing more fully about the gaps in our knowledge and how best to fill them.

For example, many want drug-only offenders locked up regardless of the questionable incapacitation or general deterrence benefits of doing so. Likewise, others want to legalize drugs outright. But honest minds on both sides must admit that we do not yet have a definitive estimate of the fraction of the prison population that consists of drug-only offenders.

Little by little analysts are beginning to sketch a picture of the amount and severity of crimes committed by prisoners when free and to explain the conditions under which some community-based felons succeed in staying drug- and crime-free. But we need a much fuller picture, a much clearer explanation.

In short, a new intellectual consensus on crime policy can be built not by avoiding the hardest policy-relevant empirical questions, but by attempting to identify and answer them, preferably in common with those with whom we are now most inclined to disagree strongly. Through a new Brookings research project, we hope to help foster just such a consensus. ■

Table 1. Estimates of Social Costs of Selected Crimes

CRIME	SOCIAL COST
Rape	\$56,280
Robbery	12,060
Assault	11,518
Burglary	1,314
Auto theft	2,995
Fraud, forgery, petty theft	110

Source: Mark Cohen, "Pain, Suffering, and Jury Awards: A Study of the Cost of Crime to Victims," *Law and Society Review*, vol. 22, no. 3 (1988), as adjusted for inflation and transfer of wealth by the authors.

Table 2. Social Costs of Property and Assault Crimes by New Jersey Inmates

OFFENDER	SOCIAL COST
Average (mean)	\$1,600,499
Median	70,098
25th percentile	19,509
10th percentile	1,650

Source: Authors' calculations from the 1993 New Jersey Inmate Survey. N=419. Drug sales, homicides, and weapons offenses are excluded.

Table 3. Benefit-Cost Ratios Implied by Table 2

OFFENDER	RATIO
Average (mean)	64.02
Median	2.80
25th percentile	0.78
10th percentile	0.07

Source: Same as table 2.

Table 4. Benefit-Cost Ratios for Property, Assault, and Drug Crimes

OFFENDER	RATIO
Average (mean)	40.10
Median	0.36
25th percentile	0.00
10th percentile	0.00

Source: Same as table 2. N=669. Homicides and weapons offenses are excluded.

Jim Leitzel,
Clifford Gaddy,
and
Michael Alexeev

By nearly all accounts, Russia is in the midst of a crime explosion. According to official statistics, the number of reported crimes has doubled since 1985. Organized criminal activity appears to be growing even more quickly. The number of organized criminal groups more than quadrupled between 1990 and 1993. Regardless of how much faith one has in these official statistics, there is no doubt that the crime issue has firmly established itself in the Russian psyche and in the national political debate.

Russians' immediate response to crime has been to change their private behavior. They are installing locks and steel doors in their apartments and being newly circumspect in walking alone in streets and neighborhoods once thought safe. But crime has also elicited a public response, in the form of support for politicians whose anti-crime zealotry threatens fragile human rights and democratic freedoms in general. The bizarre nationalist Vladimir Zhirinovskiy boasts an anti-crime platform that would execute leaders of criminal gangs without trial. President Boris Yeltsin, too, has been pressed to act more forcefully to combat

organized crime. In June, he gave police broad powers to search premises and detain suspects without formal charges.

Increased Russian criminal activity also affects foreign and national security affairs. Concern has arisen, for example, that Russian organized crime may gain control of nuclear weapons or weapons-grade radioactive material.

Less sensational, but equally worrisome, are the economic effects of corruption and organized crime. Many would-be Russian entrepreneurs are discouraged by the prospect of having to run a gauntlet of demands for bribes and protection money. Foreigners in particular may well be reluctant to do business in Russia.

Despite these and other legitimate concerns over the emergence of the Russian mafia, a closer look at the Russian crime scene offers three reasons for believing that the situation is not nearly as hopeless as is sometimes suggested. First, the extent of crime, particularly organized crime, in Russia today is generally overstated, especially as compared with its extent in the Soviet era. Second, the Russian mafia provides emerging businesses with benefits—services that they need but cannot as yet get from the state. Finally, as economic reform continues to progress, the mafia is likely to fade in importance.

Who Is the Mafia?

It is not always easy to know who Russia's "mafia" is. The use of the term in Russia long predates the current reforms. In one common and traditional usage, it refers simply to whoever is in power—at nearly any level. In such a view, of course, the statement that "the mafia runs the country" is a tautology.

But the confusion is not attributable entirely to popular prejudice and misconception. Even official statements are misleading. When Russian law enforcement officials declare, for instance, that "4,000 organized criminal groupings" are operating on Russian soil, one envisions thousands of well-structured and extensive networks of criminals. But, by official definition, an "organized criminal grouping" can consist of as few as two people. Indeed, in 1990, nearly half of the criminal groups had only two or three members. Fewer than 1 percent had more than ten.

MAFIOSI AND

MATRIOSHKI

Organized
Crime
and
Russian
Reform

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The Mafia, Soviet-Style

Ironically, the origin of the mafia-like criminal organizations in Russia today lies in the Soviet *ancien régime*. Corruption and organized crime were well established in the Soviet planned economy. While the state was the nominal owner of the “means of production,” it was *people* who put state plans into operation. And the many individuals who had control over state resources could (illegally) exchange them through informal markets. Butchers could sell choice cuts of meat “through the back door,” a transaction favored and practiced by nearly all retail clerks. Consumers could use bribes to move to the front of queues for scarce commodities such as automobiles. Special employees of state-owned enterprises—the famous *tolkachi*, or supply expeditors—used connections and bribes to secure vital supplies for the company. Even housing, constitutionally guaranteed in the USSR to be distributed on the basis of need and with very low rents, was allocated in large measure via formal and informal markets.

The old system was one of near-total corruption. But the bribes, theft, and corruption were not haphazard; rather, the system was extremely well organized by the Communist party. The party controlled all the key posts in the Soviet economy, and only party-approved candidates could fill them. Holders of important jobs in turn controlled access to lesser jobs, many of which had their own informal opportunities for personal enrichment. Thus bribes tended to flow up through the party and state hierarchy.

That virtually everyone was behaving illegally helped cement the system of corruption. With the Communist party also in control of the police and the judiciary, those who played by the informal rules could be assured of protection, and those who violated the norms could be openly punished by selective enforcement of the law. The corrupt system was widely understood, and, for many years, quite stable.

In short, the economy in the former USSR was controlled by what was in essence an organized criminal syndicate: the Communist party. The bribes that flowed up the party hierarchy formed the tribute, the protection money, or the informal taxes, that were a necessary part of conducting business in the USSR.

Economic reform has destroyed two of the keys to the old organized criminal structure: the monopoly on executive, legislative, and judicial power held by the Communist party and the illegality of most private economic activity. The stability of the power structure having broken down during perestroika, “private” protection rackets can now compete, among themselves and with the remnants of the old system, to capture a monopoly over the provision of protection for a market or a locale. But, just as mafias in other settings are most brutal when territory is under dispute, this new, post-Soviet mafia is decidedly more violent than the old system. Ironically, the new competition among racketeers represents an increase not in organized, but in “disorganized” crime, resulting directly from the breakdown of the Communist party’s organizing structures.



What Do Mafias Do?

Russia's organized criminal groupings may be enmeshed in a host of illegal activities, including drugs or weapons dealing, but, as Diego Gambetta explains in his recent book, *The Sicilian Mafia*, it is in the supply of private protection that true mafias are distinguished from other criminal groups.

Protection rackets, like most human activities, entail both costs and benefits. In the case of the mafia, the costs—the violence, coercion, increased prices, the suppression of vibrant economic activity—are most visible. Understandably, those costs and the moral distaste mafia activities engender often make it hard to acknowledge that mafias may confer benefits. Yet the benefits are there. By definition, private providers of protection—mafias—offer security against harm in a business deal. At times, of course, the mafia itself is the source of the potential harm for which protection is

tracts. In such an environment, the only alternative to halting all business activity is to privatize enforcement. This is not to say that the mafia is inevitable. It is but one of a range of private solutions for business people who need protection for their transactions. Other ways to ensure contract enforcement include vertical integration (bringing together into one firm various stages of a production process), merger, collateral, a reliance on personal relationships or on reputation, and barter. In fact, the use of all these alternatives has grown during the reform period. Unfortunately, they are not always available at reasonable cost, nor are they always effective. Thus some entrepreneurs turn willingly to the mafia.

Others end up having to deal with the mafia against their will. But even coerced dealings may be preferable to avoiding the mafia altogether or to defending against its influence, both of which involve behavior that works against development of a market economy. For instance, one defense against the mafia is to try to remain hidden. Individuals and small businesses may voluntarily restrain their profit-making business activity, keeping it far below its maximum potential. Some otherwise competent businessmen will even choose not to engage in business at all. Larger enterprises cannot hide their presence, but they can restrict access to information about their business activity (sales, profits, and business partners), even to employees and shareholders. Such strategies, however, only help perpetuate the secrecy that already hamstring effective corporate governance in Russia.

Hiding or restraining economic activity is a passive approach to defending against the mafia. More aggressive approaches involve relying on private internal security forces. But this, too, involves risks and costs both to the enterprise and to society as a whole. If, as is likely, small entrepreneurs are less able to afford internal security, this vital sector of Russia's nascent market economy will be further handicapped. And in an enterprise of any size, an internal security force powerful enough to ward off the mafia might be sufficiently intimidating to demand its own tribute from the owners of the firm, and develop into a mafia itself.

Relying on mafia protection also reduces incentives for businesses to operate legally. A business may be forced to hide some of its receipts for protection payments. And since it is not relying on the state for protection and contract enforcement, it is more likely to operate underground. This deprives the state of tax revenues, leading in turn to higher tax rates on legitimate businesses, perhaps pushing them underground too, and to higher budget deficits and excessive printing of money. The resulting damage to the Russian financial system impedes the functioning of both legal and illegal markets.

Reform and the Mafia

Although the truly critical event in the onset of Russia's current wave of organized crime was the disintegration of the Soviet Communist party, economic reform itself has also played a role. By vastly increasing the scope of legal private economic activity, reform has produced more potential victims for criminals to attempt to extort.

The net impact of organized crime in
Russia today is probably beneficial. In
fact, under current conditions in Russia,
organized crime is a necessary evil.

needed. But not always. Mafias can provide security against other types of "disorganized" crime that might be attempted against their "clients," just as they also may offer security from other would-be protectors. Dispute resolution is another mafia service. But perhaps their main benefit is contract enforcement.

Contracts, whether formal, written documents or just oral promises, are the life blood of a market economy. To undermine their efficacy is to shut down the market. And Russia today is an economy in which contracts have little force. Failure to adhere to a contract—most notably, failure to pay for goods or services ordered and delivered—exact virtually no official penalty. As of last spring, fully 45 percent of the aggregate volume of accounts receivable in all Russian industry were delinquent.

Contract enforcement was less of a problem in the official part of the old Soviet economy. When one state-owned enterprise entered into a contract with another, the state was merely contracting with itself. Reform, by making individual enterprises and businesses legally and economically independent, has made contract enforcement a much more pressing concern. Yet, the Russian state today is unwilling or unable to provide public enforcement of private con-

But the relative *lack* of reform in certain areas of the economy is also encouraging such activities. The problem is that economic liberalization in Russia, even in the narrowest sense of legalizing private business activity, is far from complete. Under the practical conditions that prevail, it still remains virtually impossible for a Russian entrepreneur to operate entirely within the law. In fact, since the laws in some cases are themselves in conflict, obeying one law can necessarily mean violating another. And a private business person operating partly outside the law cannot easily appeal to the police in the face of demands for tribute from organized criminals. Meanwhile, other state officials, who control licenses, land and buildings, and other prerequisites of business, continue to peddle their discretionary powers for bribes.

Russia's incomplete economic liberalization promotes corruption in other ways. For example, the cut flower market in Moscow is widely rumored to be controlled by the mafia. Although an overarching mafia would seem to be hard pressed to enforce a share of sales of the seemingly thousands of small-scale flower sellers on Moscow street corners and at subway stops, it could do so—by working at the transport stage, which is still dominated by lingering monopoly elements of the old command system. The flowers, which are grown not in Moscow, but in more temperate climes, are transported to Moscow on the Aeroflot airline and the state-run rail network. It is there that an organized network can control things and exact payment. And, in fact, in the summer, when flowers are grown in the Moscow area, the mafia control appears to break down.

Incomplete reform also influences the behavior of organized criminals. Because ambiguity in protection relationships can be costly to all parties, the protection industry naturally gravitates toward long-term relationships. In such relationships, the mafia prefers to work with profitable businesses to maximize its share and is willing to provide services that promote the firm's profitability. For their part, mafia clients may think the relatively secure business climate thus provided well worth the cost. If the mafia does not have such a long-term view, however, its provision of private protection becomes closer to pure extortion, and it might bleed a victim dry. Russia's uncertain economic environment today encourages a short-term view, focusing the attention of all entrepreneurs—including the mafiosi—on making the quick ruble today. But the same economic and political uncertainty also reduces the value to an entrepreneur of building and maintaining an honest reputation—often a major mechanism for contract enforcement in a market economy—thus making the mafia's services particularly valuable.

Is There Any Hope?

Ordinarily, organized crime hampers economic performance. Certainly the old USSR is suggestive of the disastrous impact of organized crime on economic development. And in a developed, Western-style market economy, widespread organized crime is likely to reduce economic efficiency severely. But is the same true in today's Russian economy? True, organized crime has a chilling effect on some entrepreneurial ac-

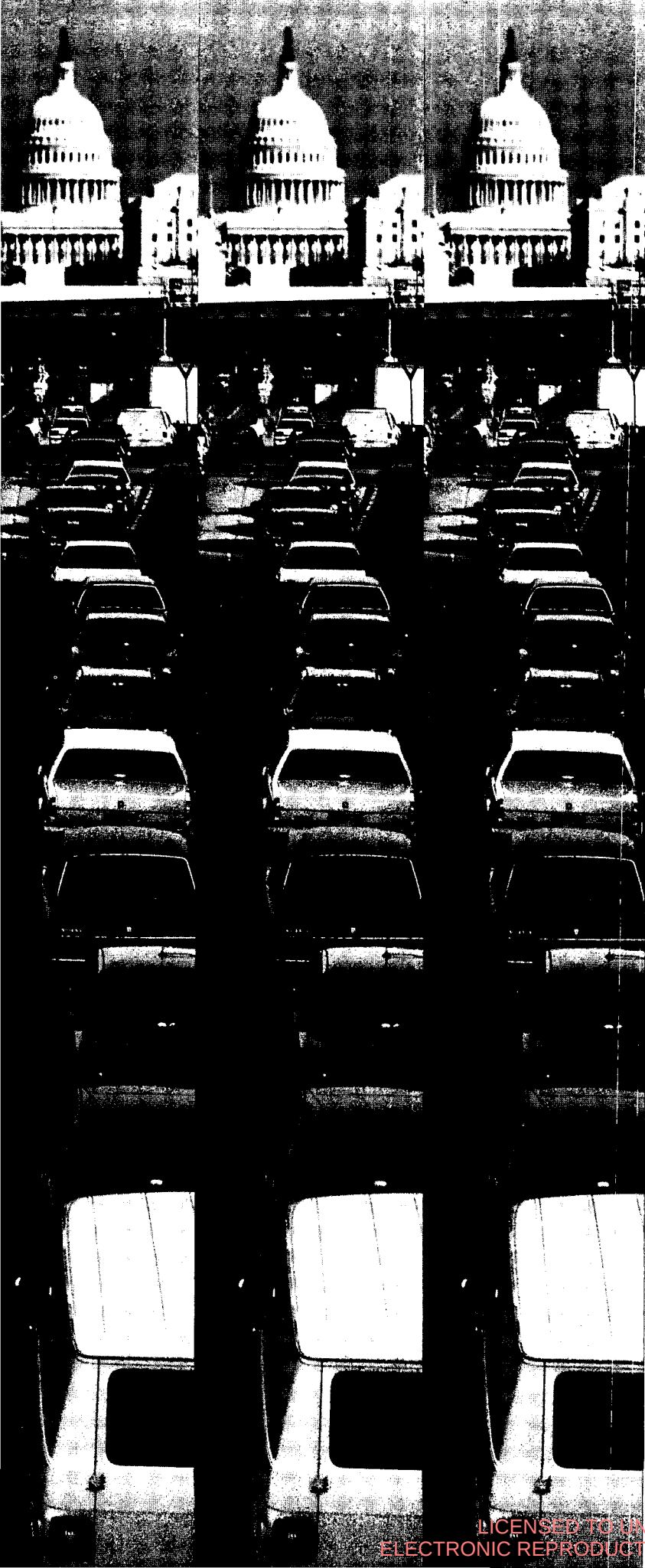
tivity. Yet the net impact of organized crime in Russia today is probably beneficial. In fact, under current conditions in Russia, organized crime is a necessary evil. Unsavory as the mafia's enforcement tactics are, they give business people the confidence to enter into contracts that would otherwise be too risky.

In any event, the continuing illegality that plagues private enterprise, along with the difficulty of privately challenging entrenched monopolies, virtually assures the continued presence of organized crime in Russia. The way to combat organized crime is not to tighten state controls over the economy, but to loosen them, thus reducing the scope for the Russian mafia. (It was no accident that ending prohibition in America halted organized crime's domination of the liquor industry.) A firm and clear commitment by Russia to economic reform and government provision of a secure business environment would also tend to lengthen the time hori-

Unsavory as the mafia's enforcement tactics are, they give business people the confidence to enter into contracts that would otherwise be too risky.

zon of the mafia and perhaps even change extortion payments into legitimate purchases of security. Some organized criminal groups in Russia are already evolving into Western-style security firms. If and when markets that remain under mafia control stabilize, the turf battles that have been the source of much mafia violence during the transition should grow less fierce.

Preliminary 1994 crime statistics from Russia are promising. Although the reported crime rate remains high compared with the pre-reform period, the growth in crime this year has slowed—almost to a standstill. One reason is surely that ordinary Russians are learning how to protect themselves against crime. But it may also be that the overall reduction in uncertainty in economic policy over the past year has also stabilized the crime rate. Whether or not that is so, the Russian mafia will not soon disappear. Its continued presence, however, need not spell doom for economic reform. If reform is allowed to proceed, organized crime will see its sphere of influence dwindle to "normal" Western levels. In the meantime, for all its flaws—including the presence of the mafia—the emerging Russian market continues to remain preferable, in terms both of economic efficiency and of personal freedom, to the old Soviet system. ■



"It's hard to take seriously that a nation has deep problems if they can be fixed with a 50-cent-a-gallon gasoline tax."

This witticism, directed at the United States by a former foreign minister of France, can't be shrugged off. Obviously, stiffer taxation of gasoline cannot "fix" a deteriorating system of education, the cost of health care, or crime rates. Americans, moreover, are skeptical of advice from Europe, where traffic congestion, fuel combustion, and pollution have increased despite motor-fuel taxes far higher than 50 cents a gallon. Still, one has to wonder whether a higher levy on gasoline might not in fact edge the U.S. government closer to fulfilling various professed goals.

Moderating oil imports and consumption has been an explicit objective of the United States for more than two decades. Since the energy shocks of the 1970s, a combination of market forces and regulatory reforms has lowered the use of petroleum in every part of the American economy except one: transportation (see figure 1). The transport sector matters because it accounts for two-thirds of the oil Americans consume. Granted, most of its oil intensity simply reflects economic growth and limited opportunities for fuel substitution. Unlike utility boilers or home furnaces, the engines of cars, trucks, buses, and airplanes cannot run on, say, chunks of coal. (They can run on methanol, ethanol, or compressed natural gas, at much higher cost.) But some of the pattern also stems from an idiosyncratic policy decision. The United States is the only advanced industrial society to minimize the taxation of motor fuel and to prefer instead a cumbersome system of command-and-control regulations for automotive energy conservation, the so-called Corporate Average Fuel Economy (or CAFE) program.

The CAFE Catch

The CAFE system, in force since 1978, requires manufacturers to meet specified fuel-use standards for fleets of new cars and light trucks. Although average mileage per gallon (mpg) has improved, the regulatory scheme continues to forfeit or delay large potential energy savings.

First and foremost, the CAFE regulations take aim at vehicles but not drivers. In fact, amid stable or declining oil prices, mandatory improvement in vehicular fuel economy reduces the marginal cost of driving, perversely encouraging motorists to drive more. Vehicle miles traveled during the 1980s climbed at almost four times the rate of population growth. Americans now log about one and a half trillion miles a year in their cars—the equivalent of almost three million round trips to the moon (and counting).

Second, CAFE has had only a very gradual effect on the energy efficiency of the overall stock of vehicles. To be sure, the mileage per gallon of *new* automobiles compares favorably with that of older cars. But the change in *all* light-duty vehicles on the road over the years is a different story. Their average in 1990 was less than 19 miles per gallon, a gain of less than 5 mpg over the 1980 average. Each year's generation of new vehicles represents a small fraction of all registered passenger vehicles, and the fraction has been getting smaller as aging, less efficient models remain on the road longer. In part, compulsory changes in fuel economy, increasing the cost of new ve-

hicles by more than the value of the fuel they eventually save, may be contributing to the slower vehicular replacement rate. Whatever the case, each year's new vehicles account for less than 4 percent of national oil consumption. A conservation effort that focuses only on that little margin cannot chalk up quick results.

Finally, another change in the composition of the modern passenger fleet has further frustrated the aims of CAFE: as sagging fuel prices lowered the operating costs of light trucks, vans, and recreational vehicles, sales of these products mounted to almost a third of the market. The lower mpg standards for this group of vehicles have slowed average fuel efficiency gains, even among the newest vehicles.

Apocalypse Not

There has long been a straightforward alternative to the problematic CAFE experiment. If a fee of just 25 cents a gallon had been added to the cost of gasoline nine years ago, the United States would have saved at least as much oil, at about a third the economic cost, simply by reducing miles driven in all types and vintages of vehicles. Without CAFE, auto companies might have sold slightly larger (hence slightly safer) cars, but the cars would likely have traveled fewer miles.

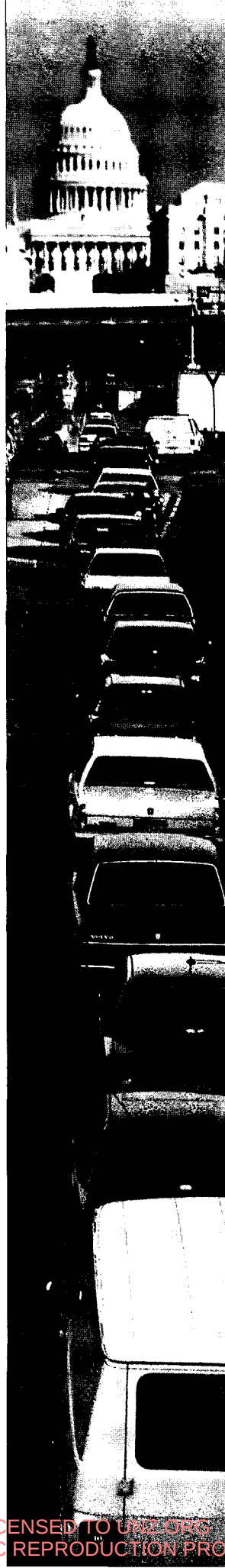
The modest tax, we stress, would not be as mean-spirited or as harmful to the economy as critics ritually assert.

Inevitably a higher gasoline tax looks regressive when related to household incomes. But data on the energy burdens of income groups are notoriously unreliable. Income statistics do not normally include in-kind benefits, such as food stamps or Medicaid. Moreover, people tend to move in and out of different income brackets depending on events, such as illness, employment, or retirement. Household spending levels, which reflect past and expected income streams, are likely to be a better guide to household well-being. By this measure, the lowest 10 percent of households spends less than 4 percent of its outlays on gasoline, roughly the same share as the top 10 percent.

A tax with this incidence may not conform to a utopian ideal in which every source of revenue for the federal government has to be levied progressively. But extant federal taxation relies heavily on the progressive income tax. Excise charges are a minuscule and shrinking share of total federal revenue. In the larger scheme of things, taxing fuel consumption less timidly would barely affect the overall progressivity of the national tax system.

The regional impacts of a higher gasoline excise vary somewhat. Drivers in low-density states of the West might feel overtaxed compared with many drivers in denser states of the East. But many western states have long enjoyed comparatively low prices for natural gas and electricity. Also, commuters in at least some of those states may drive long distances but in less time than it takes to make shorter trips in, say, the congested Northeast corridor. Motorists continually stuck in traffic can easily spend as much on fuel as long-distance drivers do.

The effects of further gasoline taxes on the economy vary depending on the time frame, whether the added revenues bring relief from more injurious forms of taxation, and whether an energy impost helps balance the federal budget. The near-term contractionary effects of



PIETRO S. NIVOLA

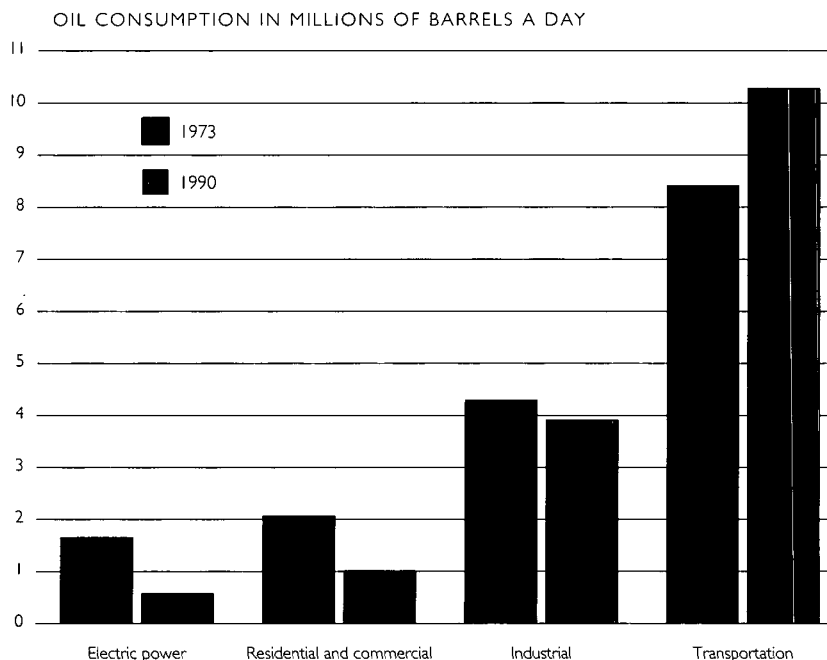
AND ROBERT W. CRANDALL

THE EXTRA MILE

RETHINKING ENERGY POLICY FOR AUTOMOTIVE TRANSPORTATION

Pietro S. Nivola is a senior fellow in the Brookings Governmental Studies program. Robert W. Crandall is a senior fellow in the Brookings Economic Studies program. This article is drawn from The Extra Mile: Rethinking Energy Policy for Automotive Transportation, a Twentieth-Century Fund book (Brookings, 1995).

Figure 1. U.S. Oil Consumption in Four Major Sectors, 1973, 1990



Source: Oak Ridge National Laboratory, *Transportation Energy Data Book*.

a fuel tax increase can be offset by the advantages (such as lower interest rates) of narrower deficits or of lower taxes on capital gains and savings.

Some Hypotheses

For purposes of conserving energy, taxing gasoline makes more sense than regulating the product decisions of the automobile industry. Virtually every other industrialized nation has chosen the simpler option and gotten better conservation results (see figure 2). How come?

The answer has little to do with environmentalism or with the degree of dependency on energy imports. Nobody worries about air quality more than Americans do. Yet we don't like to penalize the use of automotive fuels expressly to reduce pollution, nor does almost anyone else. Very few countries levy transportation taxes primarily to husband energy (Sweden and Denmark are exceptions). One might suppose that oil import-dependent nations consistently impose higher taxes on consumption than do self-sufficient nations. But the steepest price for gasoline happens to be in Norway, a net oil exporter, not Japan, whose reliance on foreign sources is almost complete. Or compare the United States and Canada. Our Canadian friends import no energy; we import a lot. Yet taxes on gasoline in Canada are, on average, more than double those in the United States.

Nor does Mother Nature suffice to explain the higher tolerance abroad for excises that raise the expense of automotive travel. The geography of North America implies great distances, but two-thirds of all the vehicle miles traveled are on urban roads, not country lanes. Ninety percent of trips are less than 10 miles long, and

the average length of trips is about the same in the United States as in Great Britain and Germany. Americans have overcome the geographic problem of truly long-distance (intercity) trips by flying. Air travel, as a share of passenger kilometrage, is 10 times greater in the United States than in Germany or Britain.

The primary impetus for taxing energy in almost all industrial nations has been the need to finance big and expensive public sectors. Beyond that, however, all similarity ends. Different histories and political institutions have produced sharply diverse policies.

Explaining American Exceptionalism

The distinctive cast of American energy policy for automotive transportation has much to do with the historical timing of motor fuel taxes in this country and with the politics of the nation's political parties, budgetary procedures, and system of local government.

Tax collectors in Washington began drawing revenue from the sale of gasoline later than did the central treasuries of Western Europe and Japan. The late start put Congress in the awkward position of seeming to intrude on an established source of income for state governments and of trying to embed the new national excise after the era of mass motorization was well under way. What flexibility the federal government had with its gasoline tax before the Second World War was narrowed shortly after the war, when revenues were dedicated to financing the interstate highways. Thereafter, increases to meet other needs came to be regarded, until very recently, as breaching a "trust."

Further, Americans increasingly lived in suburbs and, thanks to cheap fuel, drove around in big cars. CAFE standards could eventually find their way into this setting; their timetables for compliance were negotiable in later stages of implementation, and in any case their costs to the public would be veiled. A policy that would visibly ratchet up the operating expense of vehicles, on the other hand, has proved nearly impossible to square with the American life-style.

Distaste for the tax option has been pervasive in Congress partly because suburban and rural congressional districts combined constitute a large majority in the House of Representatives with a keen interest in keeping down the cost of automotive travel. Besides pure constituency politics, legislators in both parties claim principled objections to gasoline taxation. The terms of their debate have been unusual from the vantage point of other democratic nations. While European conservatives have rarely resisted the bountiful yield of national fuel taxes, Republicans here remain wary, preferring to keep a tight lid on the taxes (and the proceeds) by earmarking them narrowly. At the same time, many Democrats seem to subject gasoline taxes to a more exacting test of fairness than do the socialists of Europe. The upshot has been CAFE mandates. Unwilling to permit conservation by price, Democrats have generally fastened onto the regulatory approach. Republicans, committed to "no new taxes," have acquiesced to CAFE for lack of a better idea.

Congressional opposition to raising the gasoline tax was scarcely shaken by the soaring federal deficits of the early 1990s. A basic reason is that the budgetary process in the United States is governed not by an executive presiding over dependable legislative majorities, but by wayward

congressional factions, even the whims of individual members. Almost every discretionary component of a president's plans for revenues and expenditures is negotiable. With Congress exercising the functional equivalent of a line-item veto, proposed energy taxes can seldom be securely encased in budget legislation. For better or worse, the high energy tax rates in Europe are associated with regimes in which the role of legislative bodies is basically to vote, up or down, on an executive budget, not to formulate individual tax and spending bills.

Less dispersion of fiscal power at the national level might have helped move recent U.S. policy toward a more sizable fuel tax, perhaps doing away with CAFE. But how much is hard to say. Americans are sensitive to gasoline prices because, compared with the Japanese or Europeans, we not only own more cars but spend more of our lives in them. To a large extent, the layout of most U.S. metropolitan areas does not leave much choice. Alternate transport modes—including one of the most common in Europe, walking—are infeasible where urban growth is so spread out.

The unique sprawl of urban communities in the United States is not entirely a consequence of market forces; it also reflects deliberate land use regulations often aimed at bracing local finances. Few other industrial nations have yet acquired an urban geography like that in this country, partly because few have passed to local jurisdictions as many fiscal responsibilities or as many incentives to disperse, through zoning ordinances, households and businesses to reduce strain on local services.

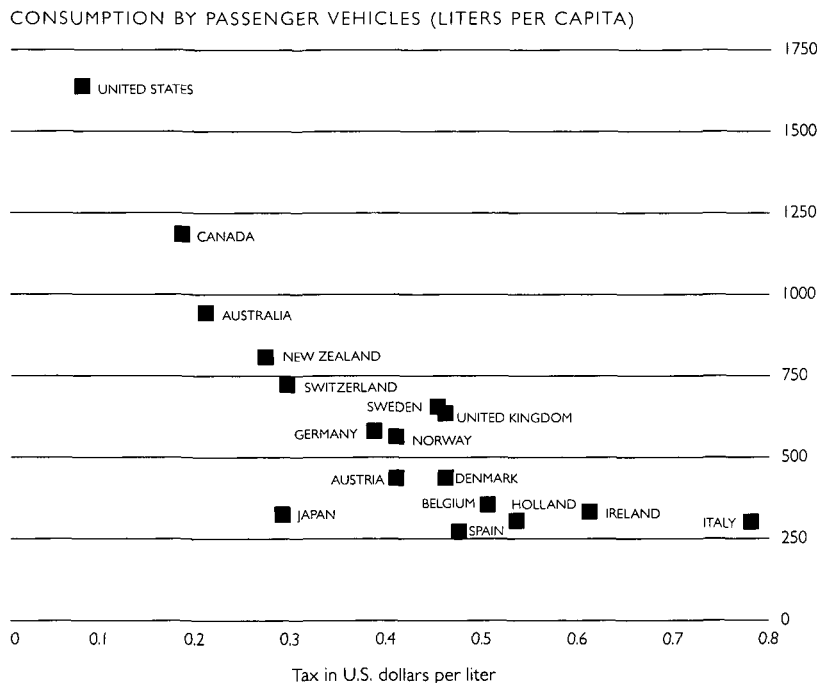
Getting More Mileage from Energy Policy

The odds are long that a simple fuel tax will ever supplant the complicated U.S. energy mandates for motor vehicles. Yet the matter merits continued attention, for flawed projects such as the CAFE legislation raise larger questions about the composition of the public agenda in the United States.

The nation is nearing the end of the century facing intense international pressures. As a signatory of the 1992 Rio agreement on climate change, the U.S. government will be expected to show more progress curbing carbon emissions. As the mainstay of a wider General Agreement on Tariffs and Trade (GATT), this country, too, will have to harmonize its domestic regulatory practices with those of others. A tumultuous, ever more competitive world will demand of us supple, complementary policy responses at home and abroad. Now more than ever, Americans can ill afford to carry an ever-expanding load of incongruous federal mandates operating with dubious efficacy and at cross purposes.

Consider the awkward interface of the CAFE regulations with the trade issue. The Europeans recently lost their GATT case that the eccentric U.S. law might constitute a discriminatory nontariff barrier, but parts of the law may be aggravating our own commercial grievances. Despite frequent complaints about trade imbalances with the rest of the world, year after year the largest part of the U.S. trade deficit is imported oil. And an increasing share is projected to flow from the Persian Gulf, an ever-unstable region that has repeatedly disrupted supplies in the past. The CAFE program has fallen well short of providing an optimal hedge against this uneasy oil dependency for the sim-

Figure 2. Relationship between Motor Fuel Consumption and Tax Rates in Selected Industrial Nations, 1990



Source: International Monetary Fund, International Energy Agency.

ple reason that demand is a function of vehicle miles traveled, not just vehicular miles per gallon.

Besides yearning for a better balance of trade, Congress has added to its extensive wish list a desire to raise the national rates of saving and investment through budgetary and tax revisions. So far it has pursued these ends primarily by spending less on discretionary activities, principally national defense, and raising taxes on income. Not only do the budget's "nondiscretionary" big-ticket items remain largely off limits; so do new instruments in the fiscal tool kit. Nudging more federal tax policy toward the taxation of consumption and away from the double taxation of savings (first on earnings then on interest from saved earnings) might seem warranted for a society that is said to save too little. No amount of automotive gas-mileage rules will further this goal. But replacing those rules with a higher fuel tax obviously could.

Likewise, it seems increasingly bizarre to bewail snarled traffic, polluted city air, and supposedly inadequate investment in additional transport infrastructure, while stubbornly enforcing energy regulations that do not relieve a root cause of such problems: the rise in miles driven annually per motor vehicle.

Policymakers cannot continue to have it both ways: wringing their hands about the national debt, gridlocked freeways, global warming, unbalanced trade, and reliance on insecure oil, while clinging to unsatisfactory policies such as the automotive fuel economy controls. Either the government will have to worry less, or, if worry it must, discontinue pet programs that often add to the difficulties it perceives. ■



REINVENTING CAPITOL HILL?

THE NPR MEETS CONGRESS

To hear the Clinton administration tell it, Congress should be scrambling to help the National Performance Review's administrative revolution succeed. Reinvented federal agencies would unshackle their employees to be more creative, more responsive to their customers, and more efficient. Getting rid of unnecessary middle managers and field offices would produce a leaner and more effective bureaucracy. It would also yield savings of some \$108 billion over five years.

When Vice President Gore released the NPR in September 1993, the White House emphasized that it could initiate many reforms without legislation. At the same time, it made clear that in the interest of efficiency and customer satisfaction Congress should abstain from "micromanagement"—hamstringing agencies with unnecessary rules and requirements and bashing newly empowered employees for well-intended errors.

The View from Congress

Congress has so far taken a different view—as, probably, will the new Republican Congress, despite Newt Gingrich's professed fondness for reinventing government. Efficiency is rarely a legislative passion. Highly constituency-sensitive and a veritable potpourri of different wants and needs, Congress is often institutionally both indifferent to considerations of future administrative capacity and slow to grapple effectively with even manifest administrative problems. Not that Congress has no taste for administration. It has an insatiable appetite for administrative details, a strong interest in comprehending their political implications, and a willingness to intervene. But its interest is selectively piqued, as it must be. Time is short and the government vast and engaged mostly in unremarkable or routine activities that defy even an approximation of comprehensive monitoring. Moreover, the electoral incentives of legislators in both parties and their larger political and policy agendas incline them to oversee agency behavior in ways that often belie congressional support for efficiency of any kind.

Whatever the administration may have claimed or

**CHRISTOPHER H.
FOREMAN, JR.**

fondly wished at the time of the NPR's release, the truth is that Congress must get behind (and more important, *stay* behind) the NPR if it is to succeed. For that to happen, Congress must believe that the interests it holds dear will be served as well as, or better than, they are now. How the administration might prod Congress in this direction is the great unanswered (and largely unasked) question of the NPR, a question made even more pertinent by the Republican congressional landslide.

Ruffled Feathers, But No Explosions

The NPR is vast in scope and touches virtually the entire federal government. It lists more than 250 "major recommendations by agency" and another 130 "major recommendations affecting governmental systems," ranging from such sweeping reforms as biennial budgeting to the relative minutiae of fewer Marine Guard detachments. The recommendations open a host of matters—agency structures, budgeting, staffing, acquisitions, inspections, regulations, information management—on which legislative assent is ultimately crucial.

Some recommendations—such as closing the Uniformed Services University of the Health Sciences (the military medical school) and consolidating Agriculture Department field offices—naturally ruffle congressional feathers. Almost as soon as the NPR was unveiled, the military medical school (and the nearly 700 civilian jobs it sustained in suburban Maryland) found ardent congressional champions, including the chairman of the Senate Appropriations subcommittee on defense and, predictably, Maryland's congressional delegation.

Still, the NPR has largely avoided the obvious political minefields of major bureau relocations and terminations. In its dealings with Congress over the NPR, the Clinton administration should mostly be spared the explosions that erupted when Franklin Roosevelt contemplated transferring the Forest Service from the Agriculture Department to the Interior Department or reorganizing the veterans' programs into a proposed Department of Welfare. The relative lack of major reshuffling may reflect partly the administration's grasp of political realities, partly the way the NPR was crafted (the advice of federal workers was enthusiastically sought), and partly the NPR's philosophy of agency

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entrepreneurship. Presumably, Clinton is content to see a reinvented Forest Service remain where it is.

Another helpful move on the part of the administration was to make the NPR divisible. Initially, some congressional supporters, such as Senator William Roth (R-DE), believed that the NPR should face a single up-or-down vote—one that would paint opponents as reinvention obstructionists. But an omnibus NPR bill would have been extremely vulnerable. The disaggregated approach chosen by the administration has left it free to set priorities among those portions of the NPR that will require congressional assent, to calculate the evolving political costs and benefits associated with each portion, and to bundle items when and where feasible. Such diverse matters as procurement, personnel, and budgeting are, in political terms at least, separable pieces of the grand reinvention. Whether the pieces that survive Congress add up to a coherent and workable whole is another matter.

Political Pluses

The NPR's theme—a government that works better and costs less—offers potent ammunition for a president courting the political center (and Ross Perot's crucial 19 million voters), while reassuring the Democratic core.

The Clinton White House could not cast the federal government as the injurious meddler of Reaganite demonology. Instead, it focused on making talented and benevolent Uncle Sam, grown befuddled and disorganized with age, once again energetic and productive, “a government as good as our people are,” as Jimmy Carter liked to say. One should not underestimate the broad symbolic appeal of the effort, both inside Congress and beyond. Release of the report brought an overwhelmingly positive public response, especially among crucial political and policy elites. When Congress's own primary oversight staff agency, the General Accounting Office, took a look at the NPR, it liked what it saw.

Inevitably, the NPR is also a creature of deficit politics. Both the document and its presentation reflect pressure for savings that would attack the deficit or yield money for other public needs, such as crime control. Presidential rhetoric predictably has embraced both goals, temporarily suppressing the tensions between them. Shortly after release of the NPR, Clinton asserted, “We can and will cut the deficit. We can and will run a government that works better and costs less. We can and will turn those savings to helping Americans . . . be safer in their homes and on their streets.”

A few weeks later, however, the Congressional Budget Office unveiled an analysis showing dramatically less in budget savings than the administration claimed from enactment of one of reinvention's legislative pillars, the proposed Government Reform and Savings Act. Congress was already showing its independence. The administration was going to have its hands full selling the NPR to one of its most important customers.

A Bigger Buyout

Although Congress had earlier and easily passed the Government Performance and Results Act (intended to force agencies to define and pursue the government-

tal version of a “bottom line”), matters became more problematic after the NPR's release when Congress set to work cutting federal nonpostal employment. Candidate Clinton had promised to shrink the workforce by 100,000 positions, a figure boosted to 252,000 by the NPR. Its task complicated by a slowdown in workforce attrition rates, the administration pushed for a “buyout” plan to encourage early retirements and so avoid disruptive and costly layoffs. Among other advantages, a buyout strategy would encourage retirement among a largely white and male management corps, making room for minorities and women who might rise to replace them. Layoffs, which slash heavily at people recently hired or promoted, would affect minorities and women more adversely.

Under the buyout plan, up to \$25,000 could go to a federal worker who retires early. Late in 1993 the plan was temporarily stalled by CBO projections that, whatever their long-term payoff, buyouts would impose near-term costs—some \$519 million over five years. Although the delay may have been, as District of Columbia congressional delegate Eleanor Holmes Norton put it, “a bad case of short-sighted, penny-wise and pound foolishness,” it reflected the deficit-dominated political winds on Capitol Hill.

The Federal Workforce Restructuring Act cleared the House 391 to 17 in early February, but when the Senate voted to use workforce savings to finance a contemplated increase in local police forces, House Democrats objected. Meanwhile agencies throughout the government edged closer to layoffs; less than a week after the House vote, the Office of Personnel Management announced the elimination of 523 jobs. In mid-March a House-Senate conference agreed on a buyout bill that dropped the objectionable Senate crime provision. A Congress nearly immobilized by the buyout's short-term costs showed barely a ripple of concern as it quietly nudged the overall workforce cuts up to 272,900.

The buyout proposal had originally been part of a large reinvention bill, the proposed Government Reform and Savings Act, which the House passed at the end of 1993. Referred to 17 standing House committees, the bill's numerous provisions constituted a major section of the blueprint for a reinvented government executive. But as with buyouts, thorny deficit-driven questions quite apart from administrative performance proved inescapable and dominated debate. What should be the overall amount and distribution of any further budget cuts? And to what worthy purposes (deficit reduction or various kinds of “investment”) should the savings be applied? Eventually the administration's bill, promising \$37 billion in additional savings over five years, prevailed over two alternatives promising larger and differently distributed cuts.

A Better Buyer

Late last September Congress passed, and shortly thereafter the president signed, a major procurement reform bill, the Federal Acquisition Streamlining Act.

Although procurement reform enjoyed bipartisan appeal in Congress well in advance of Clinton's election (a major factor in the bill's success), Congress had

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also created or long tolerated many problems that reform was supposed to address. For many years, critics inside and outside government had assailed the procedural burdens of federal procurement, including the widespread resistance to evaluating contract proposals in light of past vendor performance.

Introducing S. 1587 on the Senate floor in October 1993, Senator John Glenn (D-OH) noted that the bill responded directly to many specific NPR recommendations. He made clear that the bill would enjoy close cooperation between the committee on Governmental Affairs that he chaired and the Armed Services panel and between the relevant congressional committees and the administration. The bill's main principles were, by themselves, hard to challenge. Among other things, it raised from \$25,000 to \$100,000 the dollar threshold below which simplified purchasing procedures would apply. It also increased government reliance on "off-the-shelf" commercial products, a departure from more costly and cumbersome government-only specifications.

From the outset, reformers knew that both the broader social goals embedded in procurement and existing procedural safeguards against fraud, waste, and abuse would pose serious political hurdles. Congress may want simpler and more economical purchasing, but it also cherishes using the process to serve other goals: "buy America" content provisions; affirmative action by contractors; advancing minority, disadvantaged, and small business contractors; and protecting local wage rates. The administration could hardly abandon these objectives. In fact, it urged extending the Defense Department's technical assistance program for minorities to civilian agencies. And when Defense sought waivers of certain affirmative action requirements for small and commercial purchases, the White House declined to endorse them. In addition, some in Congress did not see an increased risk of contractor fraud and waste as an acceptable price to pay for the promise of greater procurement flexibility.

The NPR in a Republican Congress

While the November election results have certainly complicated matters, reinvention's future may in some ways be brighter than before. President Clinton's political stake in reinvention is now far higher; he needs to find arenas where he and the new Republican congressional majority can cooperate. And it is in the Republican party's interest to enter the 1996 elections with at least part of the credit for having tamed, if not slain, the bureaucratic dragon. Reinvention allows them to do this while claiming that they have, after all, been able to find significant common ground with the president.

The advent of so many new members of Congress and the ascent of a completely new roster of committee and subcommittee chairmen automatically disrupts settled alliances and replaces old policy preferences with new ones. For example, legislated personnel floors, opposed by the NPR but favored by many Democrats fearful of agency staffing cuts, should be easier to set aside. Crusty Texas Democrat Jack Brooks, strident skeptic of reinvention, has been sent packing back to Beaumont. Once fearsome Energy

and Commerce chairman John Dingell, perhaps the most accomplished red tape artist and micromanager in the House, is now defanged. Ironically, the theme of "change" that propelled Clinton into the White House may, in the case of the NPR, be given momentum by the ascendancy of his opposition. Indeed, Clinton's new task may be to contain the zeal of his new congressional partners. Reinvention, he must remind them, is not synonymous with elimination.

The Republicans and Clinton must also work on a number of tensions implicit in the NPR itself. If the bureaucracy takes the NPR's charge to middle- and low-level entrepreneurship seriously, both policy integration and accountability could suffer. Offering greater discretion to managers may conflict with attempts to bridge gaps across agencies and departments in the interest of policy consistency. It may also require Congress to relinquish certain kinds of control over programs. And though some may not care to stress it for the present, achieving program results and budget savings are two different and potentially opposing objectives.

Long-term congressional oversight of administration, always an uncertain component of reinvention, becomes even more so in the wake of the Republican sweep. Congress must supervise and at least tacitly support even reforms that it did not formally approve. The Reagan-Bush era ought to have taught us that high-profile domestic policy initiatives by the executive invite political struggle, and that neither the executive nor the judicial branch can keep Congress at bay with high-minded admonitions to know its place and stay there.

When well-intended uses of entrepreneurial discretion turn out badly, will Republicans react by administering their own harmful doses of micromanagement? After all, the party in power may have changed, but certain institutional fundamentals have not. The news media are unlikely to contain their appetite for scandal, and astute politicians of both parties still face incentives to mine and trumpet administrative misdeeds. How will Republican support for reinvention fare compared with generalized hostility to bureaucracy and the inevitable temptation to use agency performance to bludgeon a "Democrat president" through the oversight process?

The NPR must actively and continually cultivate congressional support, now more than ever. The NPR staff has discussed giving individual members a stake in reinvention by finding ways for them to share public credit for savings and efficiencies in their districts and states, a kind of reverse pork barrel. That clever, and perhaps fanciful, idea will necessitate creativity and sustained energy to work. Ideally, the executive will also negotiate many small and mostly informal bargains, including perhaps *de facto* committee vetoes, to keep reinvention working smoothly. The NPR pleads for Congress to minimize restrictions and to allow agencies to consolidate and simplify the mountain of reports submitted. But Congress must see such devices as unnecessary. The return of divided government, enabling the parties more aggressively to displace blame onto one another, may have placed such understandings beyond reach. ■

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A NEW MEXICO?

Toward a U.S.-Mexican Partnership

NORA LUSTIG

Mexico has been much in the news this past year. On January 1 the long- and rancorously debated North American Free Trade Agreement finally went into effect. In April Mexico was invited to join the Organization for Economic Cooperation and Development, thus taking its place among the world's top industrial countries. In August Mexicans turned out in record numbers to elect Ernesto Zedillo as their new president. But other headlines throughout the year laid bare Mexico's deepseated problems. On the very day NAFTA went into effect, guerrillas in the poor southern state of Chiapas led a violent peasant uprising that took the Mexican army four days to quell. Meanwhile, two kidnappings of important Mexican businessmen and two high-level political assassinations—one on March 23, of Luis Donaldo Colosio, the ruling party presidential candidate, and the other on September 28, of José Francisco Ruiz Massieu, the party's secretary general, shocked the country.

As ties between the United States and Mexico deepen and become more formal, particularly as a result of NAFTA, the news from Mexico, both good and bad, will acquire special relevance in the United States. From the U.S. perspective, the growing U.S.-Mexican partnership will be judged primarily on two counts: Mexican economic prosperity and democracy. Mexico's prosperity is crucial to reduce three sources of domestic U.S. political irritation: undocumented migration, the U.S.-Mexico wage gap, and environmental degradation, especially at the border. Economic

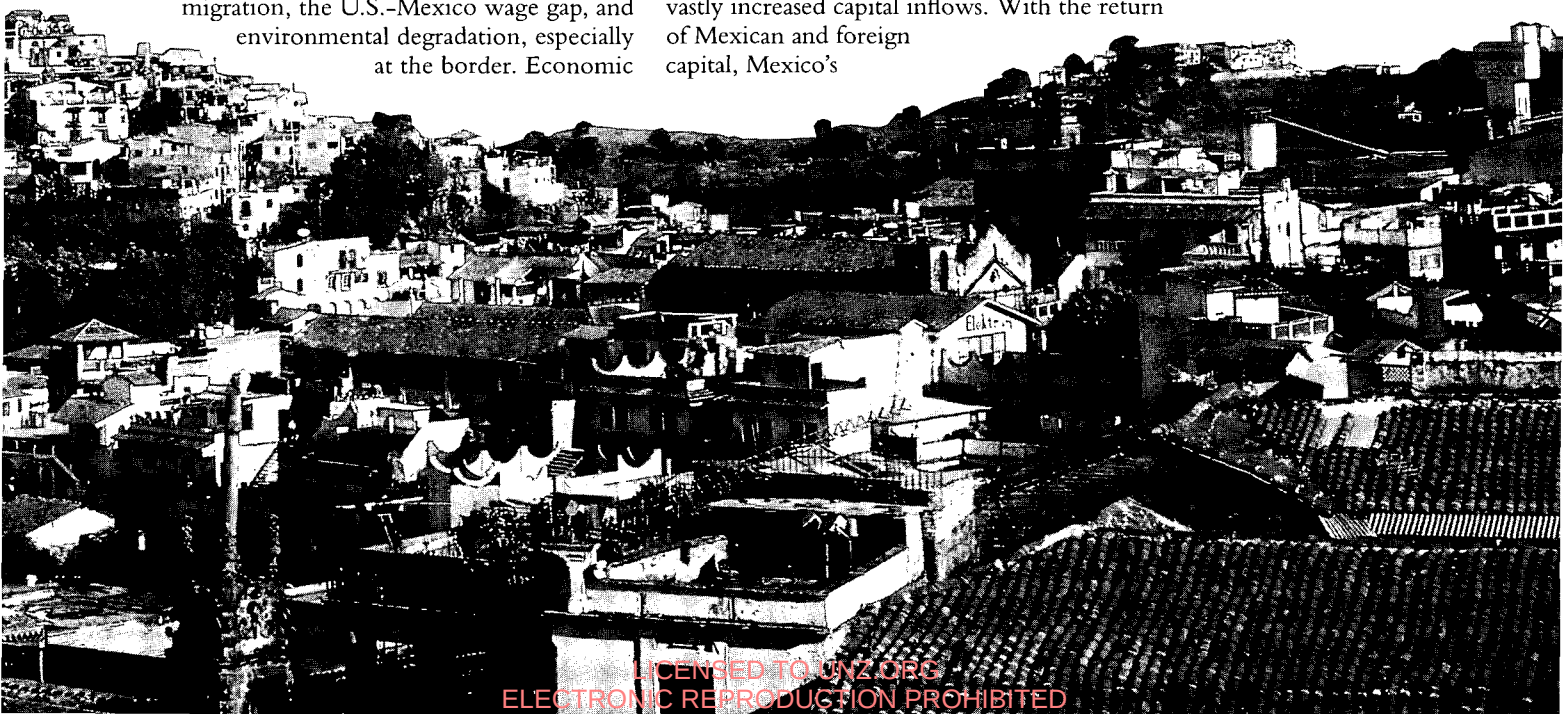
prosperity is also essential to ensure Mexico's significance as a trade partner. Continued steps toward a fully open and democratic political system are also necessary to prevent potential embarrassment to the U.S. government that could limit its authority and world leadership.

Toward Economic Prosperity

For Mexico economic prosperity entails a combination of price stability, sustained output growth, and social progress. Since the debt crisis of the early 1980s that virtually bankrupted the nation, Mexico's government has pursued painful stabilization and structural reforms, including severe fiscal austerity, tariff reductions, and the sale or closing down of many inefficient state enterprises, including the airlines and the steel complex. Following the debt crisis, during the 1980s growth rates and real wages fell, inflation accelerated, and poverty rose. But starting in 1988, the reforms implemented by President Miguel de la Madrid and continued by President Carlos Salinas after he took office in 1989 began to pay off. Following the introduction of a new wage and price control program called the "Pacto" in 1988, inflation dipped to single-digit rates in 1993 for the first time in two decades. A 1990 debt reduction agreement opened the pipelines for new foreign lending to a capital-starved Mexico, and the reforms, together with the successful negotiation of NAFTA, vastly increased capital inflows. With the return of Mexican and foreign capital, Mexico's

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PANORAMIC IMAGES



economy began to grow again. Between 1989 and 1992 Mexico registered positive GDP growth rates in per capita terms. In 1993 growth faltered but then resumed in 1994. But to generate enough employment opportunities to stem the tide of illegal migration northward and to eradicate the extreme poverty that affects close to 10 percent of the population, Mexico's output needs to grow at higher and sustainable rates.

In the short run, higher growth rates require continued strong capital inflows. Investment will stay high if investors have confidence in Mexico's economic and political stability—in particular, if they believe that the

and production processes in Mexico. But government action will also be required. Investment in education, health, and infrastructure will have to be expanded, and further reforms must lower the cost of energy and labor. One way to reduce the financial burden on employers, for example, would be to repeal legislation requiring them to make large severance payments upon workers' dismissal and to institute instead an unemployment insurance program.

The U.S. government also has a role to play in helping Mexico prosper. First, prudent fiscal policy in Washington is essential for Mexico since higher U.S. interest rates not only increase the burden of Mexico's existing foreign debt but divert investment flows from Mexico into the U.S. financial sector. Moreover, the U.S. government can, as it did when the NAFTA vote was in question and after the Colosio assassination, help deter capital flight in moments of acute uncertainty by maintaining existing currency swap arrangements. Finally, Washington can also contribute to Mexico's prosperity by keeping at bay U.S. protectionist interests. The newly elected Republican Congress can be expected to help in this regard.

Tackling Political Reform

Mexico has also made progress in the area of political reform, albeit more slowly. Ruled with a heavy hand by one party, the PRI, for more than six decades, Mexico is beginning to move toward a more open and democratic political system, particularly in the area of elections. Although President Salinas's own election in 1988 was heavily tainted by charges of fraud, his government instituted several important reforms in the Mexican electoral system between 1989 and 1994. The reforms had three primary objectives: to reduce the chances of fraud and increase the probability of discovering and punishing any fraud that does occur, to make the electoral competition fairer, and to increase the representation of opposition parties in Congress.

The first objective, reducing and penalizing electoral fraud, relies heavily on having a complete, current, and accurate register of voters (known in Mexico as *padrón electoral*), impartial electoral authorities, adequate election day procedures, accredited electoral observers, and strict penalties for electoral crimes as well as functioning and impartial prosecuting bodies. Accomplishments in these areas were substantial, at times responding, directly or indirectly, to mounting political pressure on the part of opposition parties, including the Zapatista National Liberation Army, the guerrillas who spearheaded last January's uprising in Chiapas.

As a result of the reforms, the August 21 presidential election was conducted under circumstances quite different from the much-discredited 1988 vote. The recent election featured a fairly reliable register of voters. In addition, the *Instituto Federal Electoral*, the organization charged with managing federal elections, had gained autonomy through the inclusion of six "Citizen Councilors" appointed through consensus by the three main political parties. Other innovations included a voter credential with photograph, the use of indelible ink, curtained off voting booths, ballot boxes with

RULED WITH A HEAVY HAND BY ONE PARTY FOR MORE THAN SIX DECADES, MEXICO IS BEGINNING TO MOVE TOWARD A MORE OPEN AND DEMOCRATIC POLITICAL SYSTEM.

government will resist populist measures such as expanding the fiscal deficit beyond noninflationary limits or reversing some of the market-oriented reforms.

Zedillo's big win in the August elections—as the candidate of the ruling Institutional Revolutionary Party (PRI), he received nearly half the popular vote, while the center-right National Action Party (PAN) won less than 27 percent and the left-wing Party of the Democratic Revolution (PRD), less than 17 percent—has allayed many such fears. The new government will not jeopardize the economic stability and investor confidence won after so many years of austerity and careful balancing of economic measures. Not only have Zedillo, an economist, and his team been strong advocates of the economic strategy begun under de la Madrid and consolidated during Salinas's term, but many of them have been in charge of implementing the policies that led to price stability and a rise in Mexico's creditworthiness.

When working at Mexico's Central Bank several years ago, Zedillo was often harshly critical of inconsistent or irresponsible policymaking, particularly uncontrolled public spending and inaction to correct mistakes or adapt to new circumstances. As president, Zedillo is likely to emphasize fiscal prudence and let economic policy be guided by economic principles as much as, and probably more than, both his predecessors.

In the long term, reaching higher growth rates will depend on Mexico's ability to lower production costs and increase domestic savings and productivity. The ongoing process of economic integration, especially NAFTA, will increase the use of modern technology

three sides transparent, and ballots with a corresponding sequentially numbered perforated stub on election day. Last but not least, stiff new criminal penalties for a wide range of election irregularities had been written into law, and a new Electoral Prosecutor's Office stood ready to investigate and punish electoral crimes.

Despite these safeguards, certain other electoral changes are still needed or advisable. Most important, because of the long-term blurring of the ruling party, the PRI, and the state in Mexico, the Federal Electoral Institute should become fully independent from the government, not only at the apex but also at the state and district levels.

Mexican elections have also been made more fair by means of reforms requiring the state to pay for radio and television time for each of the political parties, with additional media time to be paid for by the parties. Other reforms set up campaign spending limits and make it an electoral crime to use public resources to promote a particular party, to oblige employees to vote for a particular political party, or to make the provision of public services conditional on voting for a party. What still remains is to address the problem of bias on the part of the country's television stations in favor of the ruling PRI. A study by the Mexican Academy of Human Rights, for example, found that in the recent election, the PRI enjoyed a 3 to 1 advantage in total air time over the two main opposition parties. The study also found that PRI candidate Zedillo was praised at a rate of 12 to 1 over his closest rivals in the most important news program on Televisa, the TV station watched by about 90 percent of Mexico's viewing audience. Another reform area that needs to be revisited is campaign spending limits. Both opposition parties complained that the \$42 million ceiling for presidential elections was too high; PAN announced that it would spend only one-eighth that limit on its presidential election campaign. Moreover, the law should be amended to require political parties to disclose their finances during the campaign so that voters are informed before the election.

The three rounds of electoral reforms during 1989-94 also changed the rules for the composition of the two chambers of the Mexican Congress, the Senate and the Chamber of Deputies. The number of Senate seats was doubled, from 64 to 128. Each of the 32 states will be represented by 4 senators, with 3 elected by majority vote and the fourth representing the political party that wins second place in the state. This reform guarantees greater plurality in the Senate and will increase the participation of opposition parties significantly. The size of the Chamber of Deputies remains unchanged. Of a total of 500 deputies, 300 are elected by relative majority and 200 on the principle of proportional representation. The last round of reforms, however, limits the number of deputies that a party can have in the Chamber so that no one party alone can reform the Constitution (a move that requires two-thirds of the Chamber). Still, the rules that define the composition of the Chamber in practice tend to favor the PRI by overrepresenting the results of the party with the largest votes. Changing those rules may be a high priority in the next round of reforms.

A Democratic Mexico

The exercise of democracy, however, goes well beyond elections and party composition in the legislative body. In Mexico much remains to be done to ensure real freedom of the press and persistent protection of human rights as well as to introduce a genuine separation among the executive, legislative, and judicial powers; between the official party and the state; and among the central and state and local governments. The incoming government is aware of the need to promote political openness and modernization. Even if political reform and the decentralization of power are not viewed as ends in themselves, they may be seen as essential to fight corruption and inefficiency in the state apparatus as well as to channel conflict through institutional mechanisms rather than through violence.

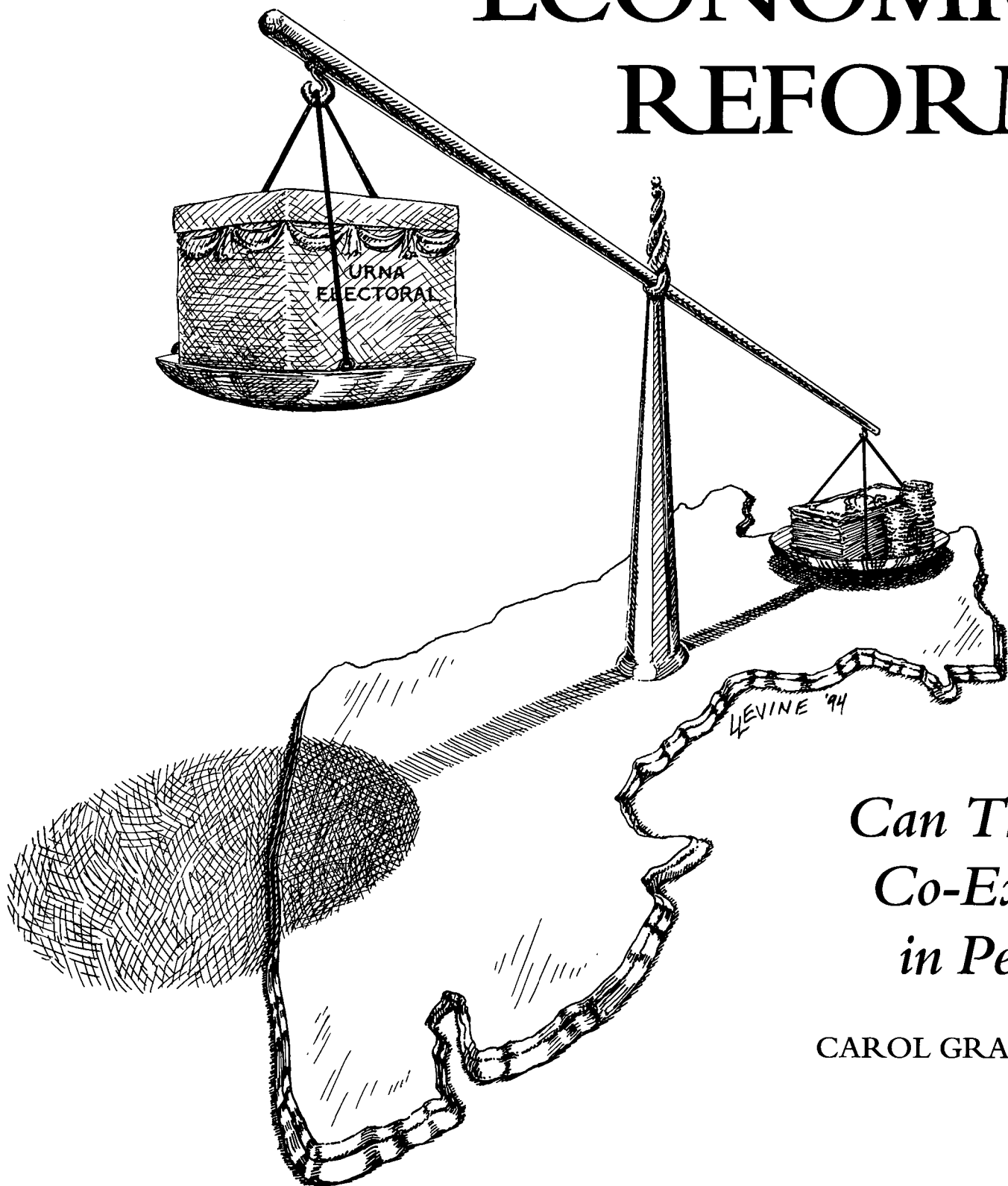
Continued progress in political reform will depend not only on the new government's will and ability, but on the existence of, for lack of a better term, a "modern" left—that is, a left that can keep the government and existing institutions on their toes when it comes to corrupt and inefficient practices and that can function as a voice representing the interests of peasants and workers in policy discussions.

Whether the government will be able to confront the entrenched interests against political reform and carry it out fully remains to be seen. The same goes for the consolidation of a modern left. However, the failure of the government to continue the political opening and the inability of the left to organize itself around a number of political objectives would be a dangerous mix because it could encourage political radicalization and the resort to violence. Zedillo's strong endorsement by the electorate in last August's elections gives him a solid base from which to pursue political reform.

In the area of political change and democracy, too, the U.S. government can play a constructive role. During 1994 the United States helped promote a peaceful solution to the conflict in Chiapas and also worked to assure the legitimacy and fairness of the presidential election. Both efforts were undertaken quietly and with respect for Mexico's sovereign rights and, perhaps because of that, both were more than usually effective. In the future the U.S. government can continue encouraging the Mexican government to proceed with necessary changes and echo the Mexican people's discontent if the process is interrupted or violated.

Problems such as undocumented migration and drug trafficking are likely to put U.S.-Mexican relations under strain. The recent heavy endorsement by California's voters of Proposition 187, which will cut off most state services to illegal immigrants, will complicate matters further. The new prominence of Jesse Helms (R-NC) in the Senate Foreign Relations Committee as a result of the Republican sweep in the fall U.S. elections could also signal trouble if Helms continues to indulge in his characteristic "Mexico bashing." If the mutual trust and high respect that has developed between Mexican and U.S. officials, particularly in the past few years, can be preserved, these problems will be approached with a spirit of cooperation and open-mindedness. If not, both countries stand to lose. ■

DEMOCRACY AND ECONOMIC REFORM



*Can They
Co-Exist
in Peru?*

CAROL GRAHAM

Few countries in the world have made turnarounds as dramatic as Peru's. When President Alberto Fujimori was inaugurated in July of 1990, Peru was in the midst of one of the longest-running hyperinflations in history. Annual inflation was more than 8,000 percent. Real wages were lower than they had been in 1970.

More than half the population in the capital city lived in poverty. The fanatic Sendero Luminoso (Shining Path) guerrilla movement controlled large parts of the nation's territory. Car bombings, Sendero-led labor disputes, and other forms of unrest rocked the country almost daily. Basic state services ranging from law and order to electricity and water delivery had virtually broken down.

To all appearances, Fujimori has performed a miracle. Hyperinflation has been stabilized and structural economic changes, such as reform of the tax and trading regimes, have been carried out. After two years of deep recession, the economy grew 7 percent in 1993 and is expected to grow 4–5 percent in 1994. The government has carried out fairly extensive privatization of industries previously owned and poorly run by the state, including the national airline, mining, and telephone companies. The supply of basic goods and services is no longer in question. Violence has fallen dramatically. The head of Shining Path, Abimael Guzman, as well as most of the top leadership, is safely tucked away in prison. The government has even begun to address sorely neglected social programs. It has targeted an additional \$10 million on health programs for the poorest groups, introduced a pilot program to increase the local autonomy of the nation's schools, and increased spending on FONCODES, a social fund that channels money to projects for the poor.

A Costly Miracle

Unfortunately, this miracle was carried out at no small cost. In April 1992, citing the need for freedom from the inefficiencies and corruption of Congress to fight Shining Path and continue economic reform, President Fujimori closed down the nation's legislative and judicial institutions in an *autogolpe*, or self-coup. The coup was highly popular among many Peruvians already estranged from many of the nation's personalist and highly partisan politicians. Heavy international pressure—successful because of Fujimori's need for resources from the international financial community—forced him to abandon his initial plans to rule by plebiscite and instead call elections for a Constituent Assembly. Even so, Fujimori has ruled in a highly authoritarian manner since 1992. He has majority control over the Constituent Assembly, and he has given the military complete operational and judicial freedom in the war against Shining Path, with predictable consequences for the civil rights of suspected “terrorists.” He also changed the nation's constitution so that he could run for reelection in 1995.

Dictatorship: A Necessary Evil?

Fujimori's success in implementing dramatic reform under authoritarian auspices has given both the nation

and the region an unfortunate message about democracy and economic reform. For many both within and outside Peru, the lesson has been that, particularly in a country like Peru, where institutions are fragile and the economy is in crisis, dictatorship is the only route to economic reform. Indeed, Fujimori, by virtue of his oriental origins and operational resemblance to Chilean strongman Augusto Pinochet, has earned the nickname “Chinohet.” Shortly after Fujimori's highly popular 1992 coup, Guatemala's President José Serrano tried to close down his legislature. President Menem in Argentina also used a referendum to alter the constitution so that he could run for reelection.

Yet a closer look at the Peruvian experience yields some different lessons. First, in the two years before the coup, Fujimori had an enormous amount of freedom to implement economic policy by decree, and an impressive number of economic reforms were pushed through Congress. Second, while the record of the Fujimori government is remarkable so far, it is not clear what the costs of prolonging its dictatorial style and practices would be. Indeed, Fujimori's perceived need to implement the *autogolpe* stemmed in part from his complete lack of attention to building consensus on reform in the legislature. Third, and more generally, as many recent comparative studies are finding, not only are democratic regimes no less effective at *implementing* reforms than are authoritarian ones, but also pluralism and widespread national consensus are essential to *sustaining* reform over the long run. In recent years, far-reaching reform programs have been implemented by democracies as diverse as Costa Rica, Argentina, Poland, and the Czech Republic. In the 1980s in Latin America, elections have actually enhanced economic performance as compared with economic management under authoritarian regimes in the 1970s.

In the case of Chile, which is often cited as Latin America's model for economic reform, the 1989 transition to democracy was essential to the long-term sustainability of the economic reforms begun by Pinochet. In Chile, however, a long pre-Pinochet tradition of democratic government and strong political parties facilitated the smooth transition to democracy and the maintenance of economic stability. Such a transition is likely to be far more difficult, both economically and politically, for Peru, where democratic institutions, far less developed than Chile's, have been seriously eroded by the Fujimori government, and where the problems of poverty and inequality are far more acute.

Sultan Fujimori

Fujimori, extraordinarily distrustful of government and institutions in general, runs what increasingly resembles what political scientist Juan Linz describes as a “sultanistic” regime. Fujimori's new concern for social issues, for example, is primarily a function of his private objectives in the national elections scheduled for April. In no way the result of a concerted government commitment to reorient the public budget, the new social policy is actually the result of a windfall \$2 billion from proceeds on the sale of the state telephone company to a Spanish conglomerate that bid far over the market

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value. Policies for the poor have been politically driven and, in many cases, haphazard. Water taps, for example, miraculously appear overnight in poor urban slums. But as no one in the local community is informed about or responsible for the projects, taps are often left running open, draining the entire week's supply of water for the community in just a few hours. The president has also been rapidly building new schools and personally inaugurating their openings—a highly popular undertaking that does nothing to address the nation's chronic shortage of qualified teachers and basic school supplies. The head of FONCODES, meanwhile, has been replaced at least three times in two years, because Fujimori refuses to allow anyone to acquire sufficient support to challenge him politically. Most innovations in the social arena, meanwhile, are driven by loans from international financial organizations such as the World Bank or the InterAmerican Development Bank, with little or no coordination with isolated efforts on the part of the government.

Fujimori's highly personalistic style of governing has also led to a series of Rasputin-like characters holding enormous power in the government, as well as to politically charged family feuds. Foremost among the Rasputins is Vladomir Montesinos, a former army captain with questionable links to the drug trade, who has seemingly complete control over intelligence and military related matters but no official position. The president's brother, Santiago Fujimori, also wields tremendous unofficial power, which has, among other things, led to feuds with the president's wife. These feuds entered the public domain last August, when Susanna Fujimori, apparently in an attempt to damage her husband's political prospects, announced that she would run for president. Fujimori quickly relieved her of her duties as First Lady while publicly declaring that they were still happily married. The scandal, not to be taken lightly in this highly Catholic, highly "machista" society, is one of the few serious liabilities Fujimori will carry into the April elections.

Meanwhile serious problems remain. The economic boom has been largely concentrated in the fisheries and mining industries and has done little to ease underemployment, which may be as high as 90 percent (few Peruvians can afford to be unemployed: most work at least two jobs without being able to breach the poverty line). And because of the government's inattention to social issues, the post-stabilization recession hit the poor hardest of all: while all income groups saw their consumption fall on the order of 50 percent in 1990, the poorest groups, who had the least margin to absorb shocks, suffered drops of more than 60 percent. Nationally, poverty is estimated to be as high as 70 percent of the population of 22 million, with at least one-third of Peruvians in conditions of extreme poverty—not the sort of problem that can be addressed by haphazard or ad hoc approaches.

On the political front, the nation's legislative and judicial institutions are primarily tools for Fujimori to pass legislation or to condemn terrorist suspects as he sees fit. The Constituent Assembly, which doubles as a Congress, for example, is led by a staunch Fujimori supporter who controls floor debates and prides himself on

efficiency. All topics are given a maximum of five minutes at the start of debates, and then they are ordered and introduced for debate as he sees fit. "Controversial" topics can disappear from the floor altogether. Fujimori has tried to extend Peruvians' recently developed contempt for political parties to include democratic institutions in general. Meanwhile, all Peruvians suspected of terrorism are tried in military courts and can be condemned to prison for years for offenses as minor as possessing literature "sympathetic" to terrorism.

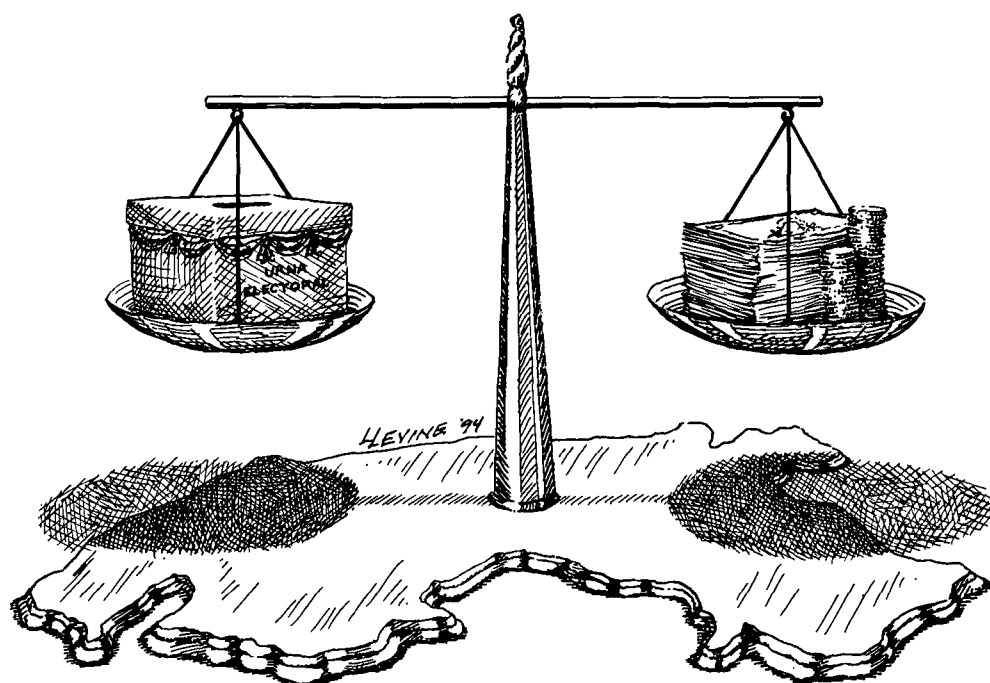
The Upcoming Election

Democracy and poverty are the two issues Fujimori's opposition is stressing in the electoral campaign. The president does seem committed to making the election free and fair, in part because of international pressure and in part because he is confident he can win. And indeed, the campaign was, until the entry of former United Nations Secretary General Javier Pérez de Cuéllar in August, pretty much of a political vacuum. Asked why an internationally established diplomat in his late 70s would want to battle a feisty and relatively ruthless autocrat for the presidency of a country that must be among the most difficult in the world to govern, Pérez de Cuéllar's response is that he wants to save democracy in his country. He also cites the urgent need to pay attention to social issues.

Pérez's campaign in some ways recalls the 1990 elections, in which novelist Mario Vargas Llosa's campaign to save his country from economic disaster failed primarily because of his lack of touch with Peru's realities. Pérez has spent a large part of his life abroad and is better known outside than inside the country. His aristocratic background and style are liabilities in a country composed primarily of poor people of Indian descent. His supporters include an eclectic mix of independents; the left, which opposes Fujimori largely on human rights and democratic institution grounds; and the political parties of the center and right, which resent Fujimori for undermining their traditional partisan political control. If Pérez de Cuéllar can maintain his independence while garnering the electoral support of these political parties, whose embrace proved fatal to Vargas Llosa, he may have a chance. Pérez's unquestionable commitment to economic stability makes him acceptable to the private sector and conservatives. If he can sell his twin message of concern for democracy and social issues, he may be able to capture the essential but traditionally volatile vote of the poor. His recent choice of a serious social scientist as vice presidential candidate is a strong indicator of his concern for poverty issues.

Pérez has already tried to distinguish himself from Vargas Llosa, first by launching his campaign in poor areas in the provinces rather than in Lima and second by publicly disaffiliating himself from any political party. Fujimori's rejection of Peru's traditional privileged interest groups and political parties not only got him elected in 1990 but continues to be a highly popular strategy. Pérez's need to support democratic institution-building at the same time that he rejects the parties makes his task more complicated. But while Fujimori has weakened national democratic institutions, grassroots democracy is strong in Peru. If Pérez

*Will Peruvians
choose economic
reform and
democracy or opt
for the former
at the expense
of the latter?*



can forge links with the myriad community organizations, local governments, and nongovernment organizations, his task is not impossible. For one thing, he can capitalize on the concentration of Fujimori's support in Lima and try to build a wider base of support in the provinces. The most recent polls show Fujimori with 44 percent of the electorate's support, Pérez de Cuéllar with 23 percent. The polls, notably volatile and tending to focus on Lima, show that the distance between Fujimori and Pérez de Cuéllar has been gradually narrowing since August. Also, since Pérez's entry into the campaign, there has been a flurry of political activity, and there are now no fewer than 15 candidates in the running. In the absence of a clear majority, the results will be determined in a second electoral round, when most of these candidates will place their electoral support behind one of the front-runners. As the opposition front-runner, Pérez will be the most likely beneficiary of this support.

Possible Outcomes

Five more years of Fujimori would probably result in continued economic growth for Peru but could be disastrous for the nation's democratic institutions and would also be unlikely to produce an effective long-term strategy to reduce poverty. Fujimori's authoritarian manner is far better suited to the economic reforms he has already imposed than to the next stage of structural reforms, which require major institutional change, as of the health and education sectors. This latter kind of reform entails building consensus among hundreds of actors on innumerable policies. If Pérez de Cuéllar can steer clear of traditional politicians and focus on building a talented technocratic team, while making his campaign and future policies responsive to the needs of the poor, he has a chance to succeed. Peru's democratic institutions would be substantially enhanced in the next few years, while its economic strategy would remain on track.

Even if the Fujimori legacy can be contained to a short-term authoritarian experiment after which democracy is restored and the economic reforms sustained and deepened, it will be a complex one for democracy and economic reform. If Fujimori is re-elected and continues to run Peru as his personal empire at the expense of any kind of institutional development, the message for the many fragile and troubled regimes, both within and outside the region, trying to implement economic reform will be far more negative: not only is an authoritarian regime effective, but it can be rewarded with sustained popular support. It takes little imagination to conceive of a clever politician in neighboring Brazil or in a troubled democracy in the former socialist economies such as the Ukraine adopting such a message to launch a political campaign that capitalizes on popular frustration and ultimately damages the prospects of democracy.

The stance of the international community can make a difference. International pressure forced President Serrano in Guatemala to reverse his attempt to close the legislature. In the 1988 plebiscite in which Chile rejected Pinochet and established an electoral framework, international support, including that of the bipartisan U.S. government-linked National Endowment for Democracy, was essential to educating the public about the importance of voting. International pressure also forced Fujimori to abandon his plan to rule by plebiscite and instead to hold free elections in 1995. Public education activities might be extremely effective in Peru, where much of the electorate is far less educated and informed than in Chile, and could at least increase public understanding of the risks entailed with prolonging a Fujimori-style regime. Even so, the international role will be far from a determining factor. It is up to the people of Peru whether to cast a vote for economic reform and democracy at the same time or to opt for the former at the expense of the latter. ■

What Killed Health Care Reform?

BY JOSHUA M. WIENER



In January 1993, enactment of comprehensive health care reform was widely believed to be inevitable. By September 1994, not even incremental change could be enacted. In the recent election, health care was barely an issue. How did health reform go from being a certainty to an impossibility?

The Clinton administration and the Democrats bear some responsibility. The secrecy of the infamous health reform task force (of which I was a staff member) unnecessarily raised media and public suspicions. The administration never explained clearly to the American people its complex plan or the logic behind its design. Nor did it ever develop a strategy to combat the massive advertising and lobbying by opponents of reform. To top it off, congressional Democrats were undisciplined, attacking the administration's plan from both the right and the left.

Sensing a weakened president, Republicans in both the House and Senate added a strong level of partisanship to fundamental disagreements in principle. Their protestations that they were only combating "bad" legislation would have been more compelling if their own substitute proposals had credibly controlled costs or provided universal coverage.

But while Democratic ineptitude and Republican obstructionism played a role, the principal reasons for health reform's demise reside in more fundamental factors.

In the first place, Americans are schizophrenic about health care. They believe that the U.S. health care system needs major reform, but they are quite content with their own health care. In a January 1994 *U.S. News and World Report* poll, three-quarters of respondents were satisfied with their

health insurance coverage, but three-quarters also felt that the system needed a major overhaul. Americans want the problems fixed without making any major changes in the way their own health care is financed and delivered. But the problems cannot be fixed without significantly changing the way health care is financed and delivered.

Second, much of the debate boiled down to whether government should expand its role in health care. Americans have low regard for their governments and do not want them to play a more important role.

Proponents of managed competition tried to finesse this political problem by retaining private insurers, but changing the rules by which they compete. To the surprise of many, making the market work better turns out to be complicated, cumbersome, regulatory, and bureaucratic. While the Clinton bill was ridiculed for running 1,300 pages, the so-called "mainstream" proposal, which would have done a lot less, ran nearly 1,100 pages, and Senator Robert Dole's bill, which proposed only minor reforms, was more than 600 pages. Complexity is the price of keeping private insurance.

The paradox is that every other industrialized country in the world provides universal coverage and has lower health care costs than the United States precisely *because* the government plays a larger role in the health care system than it does here. Although many countries are experimenting with market-like reforms, none would dream of reducing the role of government to that of the United States.

Third, reform is ultimately about dividing up the trillion dollars spent each year on health care. Naturally, a huge variety of groups worked terri-

bly hard to protect their interests. In excess of \$150 million was spent to defeat health care reform. You do not have to have a Ralph Nader-like view of the world to be impressed by that kind of spending by special interests.

By comparison, the advocates of health care reform are nowhere near as organized or as wealthy. There is no American Association of Uninsured Persons.

The main organized supporters of reform—the unions and elderly advocacy groups—represent constituencies that are already extremely well insured. With their memberships more concerned about losses than gains from health care reform, these organizations were forced to spend much of their time and money keeping their own members in line rather than reaching out to the broader population.

Big business, which helped lead the charge for systemwide reform in the early 1990s, was a critical defector from the health care reform coalition. Buoyed by a stronger economy and a perceived slowdown in health care costs, large corporations took refuge in their own managed care initiatives and decided that they could solve their cost problems without outside help. They turned their back on Clinton's plan, which had been larded with benefits for large corporations, and every *other* major proposal.

This cycle of reform has borne bitter fruit. If anything, the American people are even more cynical about the powers of special interests and the inability of Washington to address the needs of ordinary people. As the number of uninsured people grows and costs escalate, fixing the system will only become harder. This was a "historic moment," and now it's gone. ■

Joshua M. Wiener is a senior fellow in the Brookings Economic Studies program. He is the author, most recently, of Sharing the Burden: Strategies for Public and Private Long-Term Care Insurance (Brookings, 1994).

It's Time to Review U.S. Cuba Policy

BY PETER HAKIM

During the past year U.S. policy toward Cuba has come under unusually intensive and broad-based criticism. The lineup of those who have publicly opposed the policy—and called for the United States to ease sanctions and engage the Cuban regime—cuts across the U.S. political spectrum. It includes Richard Nixon (in his memoirs), Claiborne Pell and Lee Hamilton (then chairs of the Senate and House Foreign Relations Committees), the editorial pages of the *Washington Post*, the *Wall Street Journal*, and the *New York Times*, and many others left, center, and right.

Yet the Clinton administration has not budged one inch from the same tired, hardline policy that has been pursued by nine U.S. presidents over 35 years. Indeed, the administration has tightened the policy further. Through its embargo against Cuba and diplomatic pressures on many countries, the United States continues to try to isolate Cuba politically and squeeze it economically—in an effort directed mainly to ousting Fidel Castro from power. Despite openings to China, North Korea, and Vietnam, the administration has failed even to undertake a serious review of its Cuba policy.

There are two possible explanations for the sticking power of U.S. policy toward Cuba and the failure of the Clinton White House to examine alternatives.

The first is that the policy is so obviously sound and that it so clearly promotes U.S. interests that no change is needed—no review required. This explanation is, of course, absurd on its face. With the immense changes that have taken place since the end of the Cold War—in the world, in the Western hemisphere, in Cuba—it is hard to imagine how a policy devised to keep Cuba from becoming a plat-

form for the projection of Soviet power into this hemisphere could be relevant today, or worse yet, so obviously relevant that it needs no review. After all, the Soviet Union no longer exists. No Cuban soldier remains outside of Cuba. Cuba's economy is in shambles. Despite the regime's rhetorical commitment to socialism, foreign investors are now welcome in Cuba, and the U.S. dollar circulates freely. Castro, it seems evident, is prepared to accept change. And after 30 years, the old U.S. policy has not achieved its goal; Castro remains in power.

The second explanation is that the longstanding U.S. policy toward Cuba is not perfect, but that the Clinton administration, like the Reagan and Bush administrations before it, just doesn't care. This means that the administration's approach to Cuba is not based on foreign policy considerations or on consideration of how it affects Cuba's people. Cuba policy does not have to withstand any foreign policy test or any humanitarian test. It only has to withstand a political test—how does it affect elections and the Democratic party in Florida?

It has been at least 18 years since the fundamentals of U.S. policy toward Cuba have received any review. Today Cuba is virtually a taboo issue in the White House and State Department; what discussions do take place are constrained within narrow limits. Nor has there been much serious discussion in Congress, aside from the occasional hearing. Regardless of their views, most members of Congress remain silent on Cuba; there just isn't anything to gain from opposing U.S. policy.

If the administration genuinely believes that its policy toward Cuba is the best one possible—the policy most likely to achieve a peaceful transition to democratic rule in

Cuba—it should be willing to subject it to serious scrutiny. It should want to examine the goals of the policy, to explore how best to achieve them, and to assess the effects of different approaches on U.S. interests, on the Cuban people, and on Cuba's prospective political evolution.

Perhaps the wisdom of the policy would be reaffirmed. That would be a welcome outcome for the administration. And if the policy is found wanting, Clinton and his advisers should want to know that as well. Everyone gains from a review—except those who believe it would demonstrate flaws in current policy and result in changes they oppose.

Only the administration can make a serious review happen. But the review could not take place in the White House, the State Department, or Congress. Views have become too hardened, the political costs of changing positions too great, habits too deep.

The only way to get a truly fresh look would be the way the U.S. government has dealt recently with other politically sticky issues. The administration should establish the kind of independent, bipartisan commission of eminent Americans that reviewed and revamped Social Security in 1982—or that has allowed for the post-Cold War closing of military bases despite intense local opposition.

It will take this kind of process—one that focuses on U.S. national interests and not on the political interests of a particular president or party—to accomplish a serious review and, potentially, to devise a new policy toward Cuba. Anything less will keep the policy frozen in time and leave U.S. decisionmakers hostage to a few Cuban-American leaders in Florida—and ultimately to Fidel Castro. ■



Peter Hakim is president of the Inter-American Dialogue. He recently spoke on this subject at a Wall Street Journal conference on U.S.-Latin American relations, along with Assistant Secretary of State for Inter-American Affairs Alexander F. Watson, Congressman Charles Rangel (D-NY), Congressman Robert Torricelli (D-NJ), and Cuban-American businessman Luis Mendez.

Continued from page 2

A Moral Case for Choice

■ Diane Ravitch makes the case for education choice as it should be made: on ethical and moral rather than instrumental grounds. Economists since Adam Smith have argued that choice is more efficient—as no doubt it is—but for a public good like education, efficiency arguments are insufficient. Ravitch makes the telling point: so long as there are public schools that no one would voluntarily attend, non-government alternatives should be an option.

The United States is the only democracy in the world that does not provide public funds for children to attend private (typically religious) schools. Most do so to preserve religious freedom. Although Australia adopted the U.S. Constitution and Bill of Rights (those elements that did not prohibit parliamentary government), its high court has found that so long as the state treats all religions, including irreligion, equally, the “wall of separation” is not breached. Our court cannot be far behind. As Senator Moynihan pointed out in “What Do You Do When the Supreme Court Is Wrong?”—you simply wait. The court’s most enduring practice is to reverse itself.

*Dennis P. Doyle,
Hudson Institute*

State Aid to Church Schools

■ Diane Ravitch’s observation that the United States is the only Western nation that does not provide state aid to religious and private schools should give Americans pause. Why is it that our country values freedom so highly, yet denies parents, especially poor families, the opportunity to select the best school for their children?

In 1991 Ravitch, then an official in the Department of Education, addressed the National Congress for Catholic Schools for the 21st Century. She praised

Catholic schools as a haven of order, community, and respect. She cited government-sponsored tests that reported their academic excellence. She admitted that educational choice was an issue she had long debated. It’s clear from her article that for Ravitch that debate is over. Her vote is for “somebody’s children,” who are, after all, *our* children too.

Catherine T. McNamee, National Catholic Educational Assn.

America’s Hollow Military

■ William W. Kaufmann (“Hollow Forces?” fall issue) raises fundamental questions about the effectiveness and efficiency of our military forces and about our methods of formulating force goals and defense budgets.

My 1993 report (recently updated), “Going Hollow,” makes it clear that we are not funding the readiness and military capabilities we need.

The key question is whether we can correct these readiness problems and address the new crisis we face in modernizing our military equipment and technology within our budgetary constraints. A recent GAO report indicates that the current future year defense program may be underfunded by \$150 billion. New challenges like regional threats, proliferation, peacekeeping, and protecting other democratic states have increased many areas of military activity.

I would like to believe that better planning and budgeting and less use of defense funds for civil programs and pork could help offset the need for more spending. But the problems in defense planning and budgeting that Kaufmann raises have existed for nearly three decades. The last time we overhauled our defense planning, programming, and budgeting system was in the early 1960s. In spite of repeated pledges by the Secretary of Defense, the department has failed to comply with laws requiring

the submission of a true five-year mission budget and the timely submission of a supporting net assessment. The department remains tied to an annual line-item budget and a two-year planning cycle that has long been obsolete.

Desirable as such reforms may be, until they can be shown to work, it will be necessary to provide adequate funding for both military readiness and sustained warfighting capability.

John McCain, U.S. Senate

Upsizing the Military

■ William Kaufmann describes well the defense department’s problems: even the current program is underfunded and sustaining the force structure would require increased procurement accounts in the years ahead. Kaufmann appears to accept, however, the defense department’s current planning approach built around two highly specific MRCs. He then claims that we could reduce ground divisions and carrier battle groups without losing much effectiveness, which is true if one assumes all the dubious premises of those MRCs.

A different approach is needed. The United States should be examining a broad range of plausible future contingencies (the standard ones plus, for example, Russian threats to Ukraine or the Baltic states, and variants of the standard MRCs in which the United States has less actionable warning time and finds itself having to fight its way in, or has to operate in jungles, mountains, or cities). Such analysis will highlight needs for *more* rather than less capability, as will analysis about needs for environment shaping, discouraging would-be competitors, and operations other than war. At the same time, the United States should reengineer all of its combat and support forces from the bottom up by exploiting technology and greatly reducing personnel. Why, for example, should a division and its

support tail today look so much like a division of 30 years ago? Sustained high-intensity armored conflict is less likely, our weapon systems are far more mobile and lethal, fixed- and rotary-wing aircraft play a very different role than in decades past, information systems are revolutionizing command and control, and precision strike is real. Serious planning under uncertainty may reveal *more* rather than fewer needs for major formations, but the cost savings needed to make current budgets adequate can probably be gained through drastic reorganization of forces and changes in doctrine (and cuts in infrastructure).

Paul K. Davis, RAND

Parks and People

■ Contrary to William Lowry (“Promises, Promises,” fall issue), it is not clear that the original mandate for the National Park Service is preservation. It is, rather, preservation as modified and qualified by the 1916 Organic Act’s mandate to *conserve* (not preserve) the parks *unimpaired for the enjoyment of future generations*. The parks are as much about a certain type of human experience as they are about pure resource protection. The park service must keep several politics in the air at the same time. When done well, both preservation and enjoyment can take place.

Lowry is right that the parks’ major problems come from pork barrel politics and overt political oversight. But I have noticed that a new generation of park superintendents is beginning to develop the requisite skills to deal with the complexity of park management in the 1990s. Here I think there is hope.

*John C. Freemuth,
Boise State University*

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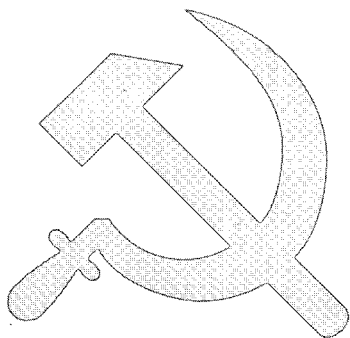
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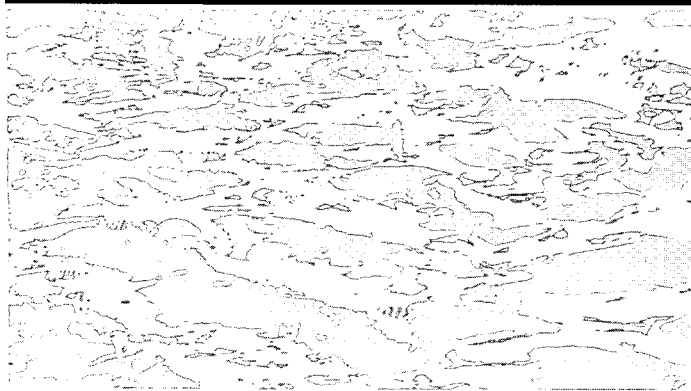


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